Affle (India) Limited

Q4 & 12M FY2022 Earnings Conference Call

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Management: 1) Mr. Anuj Khanna Sohum – Managing Director & Chief Executive Officer of Affle (India) Limited

2) Mr. Kapil Bhutani – Chief Financial & Operations Officer of Affle (India) Limited

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This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Affle (India) Limited Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jain from Dolat Capital. Thank you and over to you Sir!

Rahul Jain: Thank you Deeksha. Good morning everyone. On behalf of Dolat Capital, we welcome you all to the Q4 and 12M FY2022 conference call of Affle (India) limited. I take this opportunity to welcome the management of Affle (India) Limited represented by a Mr. Anuj Khanna Sohum who is the MD & CEO of the Company, and Mr. Kapil Bhutani, who is CFO of the Company. Before we begin with the discussion, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve some risks and uncertainties. Kindly refer to slide #25 of the Company's Q4 earnings presentation for a detailed disclaimer on the same. I will now hand over the call to Mr. Anuj Khanna Sohum for his opening remarks. Thanks and over to you Anuj!

Anuj Khanna Sohum: Good morning everyone and thank you for joining the call today. I trust all of you are keeping in good health.

Affle delivered another quarter of landmark performance to conclude FY2022 as our strongest growth year, anchored on our entrepreneurial culture, tech innovations and sustainable value creation powered by our Affle2.0 Consumer Platform Stack. I am incredibly proud that in the last 5 financial years since FY2018 since our initial DRHP was filed, our team has delivered over 6.5X growth in topline and profitability, a fact which stands further grounded given it was a consistent y-o-y growth coming across the quarters. Our cashflow from operations increased by about 100% y-o-y in FY2022, a CAGR of about 63% since FY2019.

We delivered revenue growth of approximately 123% y-o-y this quarter and achieved Q4 Revenue CAGR of 73.3% over the last 3-year period, much ahead of the industry growth trend. Inspite of the Q3 to Q4 seasonality, our CPCU business noted a strong momentum delivering 56.5 million conversions during the quarter, an increase of 91.1% y-o-y at a Rs. 51.1 CPCU rate. This took the total user conversions delivered in FY2022 to 195 million. Powered by our ROI-linked CPCU business model and unique position in the industry, we continue to grow as the preferred mobile marketing company across global emerging markets and beyond.

We continue to witness a robust, broad-based growth in advertiser spends towards mobile marketing, coming across our top industry verticals and India & International markets. Thus, we achieved organic growth of about 45% y-o-y in Q4 across India & International markets and this is significantly above the average industry growth trends. Our business is in high growth momentum with our product proposition and tech IP aligned to leverage upon the tremendous digital adoption ongoing globally, offering a significant opportunity for further scale.

Global tech ecosystem is experiencing a paradigm shift driven by the ever-evolving consumer trends accelerated towards adoption of connected devices and now beginning to inch towards emerging technologies such as Metaverse. Affle being one of the industry pioneers and thought leaders will continue scaling up on our deep tech powered connected consumer platform stack to enable futuristic use cases. We will continue to invest to achieve our collective vision of reaching 10Bn connected devices in the decade ahead and further augment our global market leadership.

Historically, our India and International contribution, balanced at about 50:50 each, shifted in Q2 in favour of International on account of our successful integration of Jampp and our efforts to build a local on-ground presence in newer international markets. The contribution stood at about 67% International and 33% India in this quarter and for FY2022, it stood at about 65% International and 35% India.

Our focused execution powered by Affle2.0 strategy anchored on the 2Vs - (Vernacular & Verticalization) and 2Os - (OEMs and Operator) level partnerships has enabled us to drive deeper verticalization for our advertisers across the E, F, G and H industry verticals. This has strengthened our moat and our Direct customers contribution has grown to about 74% of our revenue in FY2022. We also continue to unlock innovative vernacular consumer experiences for the advertisers and to reflect upon our strengths, we have included three case studies in our Earnings Presentation focused upon Health-tech, Vernacular and Omnichannel Retail Growth Solutions.

Affle Platforms have been consistently recognized in the industry as top performers. We recently celebrated a record milestone of winning a total of 114 recognitions across categories and geographies in the 14th edition of the AppsFlyer Performance Index. Affle's Appnext Platform demonstrated exceptional growth results, continuing its Number-1 rank as an independent non-Self Reporting Network (SRN) platform globally across the Retention Index and IAP

Index (non-gaming). We also had our Jampp and RevX Platforms participate in the Index where they featured amongst top platforms across various categories and geographies. We were also recognized as the 'Best Technology Platform for Advertising' and won several other top awards at the prestigious 'India Digital Awards' (organized by IAMAI), fortifying our industry thought leadership position.

I am extremely proud of Afflers for achieving these milestones and consistently delivering an all-around profitable & sustainable growth. Our proactive adoption of ESG and initiatives toward enabling a sustainable ecosystem reinforces our commitment towards holistic value creation for all our stakeholders. We enter FY2023 with optimism and are well-positioned to further capitalize on the growth opportunities ahead of us.

With that, I now hand over this discussion to our CFO, Kapil Bhutani to discuss the financials. Thank you and over to you, Kapil!

Kapil Bhutani: Thank you Anuj. Trust all of you are keeping in good health.

Continuing our growth momentum of clocking over 120% y-o-y growth in last two quarters, Our Q4 FY2022 revenue stood at Rs. 3,151 million, a strong growth of 122.6% y-o-y. We concluded the financial year with a revenue of Rs. 10,817 million, a growth of 109.3% y-o-y, driven by robust contribution from organic growth and from Jampp.

Our reported EBITDA for the quarter stood at Rs. 587 million, an increase of 70.2% y-o-y while for FY2022, EBITDA stood at Rs. 2,135 million, an increase of 63.8% y-o-y.

Kindly refer to our note on Hyper-Inflation Accounting with respect to our step-down subsidiary in Argentina, given on slide 5 of our Earnings Presentation. In regards to that, our adjusted EBITDA for Q4 FY2022 stood at Rs. 607 million at a margin of 19.3%.

As you are aware that our third quarter in any year is the highest quarter due to seasonality. However, the cost of operations in Q4 is generally equal to Q3 and hence the EBITDA is highest in Q3.

In this quarter, Our Inventory & Data cost sequentially was stable at about 63.4%. Our Employee cost increased by 14.5% q-o-q. This included approximately 3.2%

impact on account of Hyper-Inflation adjustment and 1.8% incremental cost of ESOS vs. Q3 FY2022. Rest was on account of investments in our human resources.

Our Reported Profit After Tax for the quarter was at Rs. 685 million and our FY2022 PAT stood at Rs. 2,139 million. Previous year quarter i.e., Q4 FY2021 included higher Other Income primarily on account of one-time gain of about Rs. 306 million on the divestment of an asset.

Our Normalized Profit After Tax stood at Rs. 527 million, an increase of 98.7% y-o-y, after adjusting for one-time gain & fair valuation gains. Please refer to slide 4 and 5 of our Earnings Presentation.

We remain focused on working capital management and continue to see robust cash flows from operations. Our collections were robust and the ratio of our cash flow from operations to Profit After Tax stood at 112.3%. This shows the quality of our customers and the robustness of our operations.

With this, I end our presentation. Let us please open the floor for Questions. Over to you Rahul!

Moderator: Thank you so much. We will now begin the question and answer session. The first question from the line of Mr. Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Firstly, congratulations on a strong performance in Q4 & FY2022. Just wanted to understand from Anuj, the potential of the growth going forward specifically in the light of the pain that you may see from the funding of the startups in the near future as hinted by inputs from some of the large investors such as SoftBank and Tiger Global. Any input on that would be great?

Anuj Khanna Sohum: When we look at the overall outlook on growth, I believe there are two perspectives that one should keep in mind. One is the historical growth performance of our own company and the second is the most recent quarter. If we look at just our pure organic growth in this quarter, we have organically grown by about 45% overall, for India and internationally both and it is above the average industry growth trend. If we also look at the historical growth trend of our company over four or five year period, we will find that we have been consistently beating the overall industry growth trends. Where is this growth coming from? It is coming from our differentiated and unique business model having Affle2.0 Consumer Platform Stack aligned for the future use cases that the advertisers are looking for. Our focus on emerging markets, emerging verticals and deeper verticalization have a multi-pronged approach and strategies anchored on our tech innovations, unique strategies and business model. It has been powering our consistent growth over several years. Even on a q-o-q basis, it has a consistent trend of beating industry average growth trends. When we see it over five years period, we find that there were multiple times when where there were funding-related issues for the startups. One of the things that we deeply care for our company is the cash flow from operations and it is reflected in the way our cash flow from operations has performed specifically noticing that the operating cash flow to PAT ratio was about 112.3% this year vs. 100.0% last year. If we compare that, we see that this company's quality of revenue is anchored on customers who are there for the long-term. It is not the quality of revenue that is dependent on the next round of funding of these customers. We are careful about what kind of customers we are on-board and how much credit exposure we take with any of those customers on a m-o-m or a q-o-q basis. Therefore, our quality of revenue is reflected in the way the operating cash flow of the company is proceeding. Also, even from the lens where let us say that working with startup is important, but important point to factor in is what kind of startup are we working with and how much credit risk are we going to take from that? Even if they come with a bigger budget, sometimes we decline it. We say no and can only take customers based on our credit risk management framework. We can only take X value of a campaign from certain types of customers to be careful about it. In that sense, I believe that we will continue to deliver superior growth compared to the industry average growth rate. We will continue to keep up with this growth momentum that the company has been seeing over the last five years and more specifically what we have already seen in the last quarter where the macroeconomic factors were already tested given the various factors whether it is the geopolitical tension around the world specifically in India or even in Europe. All of those factors taken into account, what we have delivered in last quarter is the best validation of our resilience that one should expect going forward.

Kapil Bhutani: Just to add to what Anuj said, we should also keep in mind the amount of funding that has been raised in the last 1 year due to IPOs or the series of investments in our customers. I believe, there is a lot of gunpowder available for the next two years with the clients. If that is your concern, I do not believe there is anything immediately to be worries about because a lot of funding was raised in the previous years, so it is not a concern at the moment for us.

Rahul Jain: Right. Thanks. An incremental thought on some of the comments made by Anuj like given the situation we are in, we can do better than the industry. But I am also trying to form a perspective from some of the commentaries that we are hearing from the large companies like Facebook, Netflix or Unity that this entire Apple policy impact has been quite significant for them in terms of new customer addition. Also, certain comments related to the potential slowdown in the budgets given the macro situation that we are seeing. Are we also seeing any potential impact of these things coming to us at some point in time? More importantly, if you could share what kind of industry growth are we seeing in some of the key markets that we operate in?

Anuj Khanna Sohum: When we look at the likes of Facebook, Google, Netflix, Unity and others, who are deeply anchored on developed markets with respect to their business and the revenue contribution of the developed market is substantial for these companies. An iOS or Apple devices linked revenue for some of these companies is very high, compared to let's say last year Affle's overall exposure to developed markets was a very small percentage of our business. Therefore, we are still on a low base and we can continue to grow disproportionately better than the industry average growth rate. So, it is also a factor of that and our exposure to iOS was nominal in the previous years as well. Therefore, when we look at the iOS opportunity even in FY2022, it turned out to be a strong growth of opportunity for us. It is because we went in there with a fresh proposition telling the advertisers and developed markets that look we are extremely strong on the android ecosystem from emerging markets perspective. If their budgets were shifting from iOS to android, then we said, hey! we are beneficiaries of that trend. Even on iOS, we went in with a differentiated proposition which was already aligned with the new dramatic shifts in the iOS ecosystem. In the last quarter Q3, we presented a case study on that and also during the investors day we did in December 2021, we talked about it with a lot of emphasis that this is a growth opportunity for our company as the base of the iOS revenue that we had before was quite small. We have gone in fresh and seen that as a growth opportunity. Any shifts in budgets from iOS to android, we were also beneficiaries of that trend which may not be a case for these bigger players who had let's say about 50% of their revenue or more anchored out of developed markets and where about 50% of the contributing devices were iOS anchored. Therefore, they may have seen a lot more turbulence whereas for us, it was a growth prospect. In terms of budgets getting reduced, I beg to differ that the advertising budgets on digital across emerging markets and across emerging verticals in both emerging as well as developed markets will continue to increase. There is no other option for the advertisers than to shift budgets significantly to digital and mobile-connected devices because of the way the consumer trends are going. This is not just a COVID phenomenon as I believe even in the post-COVID situation, the consumers' attention and the transactional adoption on digital devices have gone up disproportionately. The percentage of advertisers spends on digital and mobile will necessarily grow significantly in the next three to five years especially in emerging markets and emerging verticals, which is where Affle's focus is. If we look at the India related reports, there are enough industry reports that state that India's average digital growth rate would be above 30% and within that if we were to take out some of the emerging verticals from our E-F-G-H category, we will see that the growth trend could be about 35% or above. The same kind of growth trends, in my opinion, we could see across emerging verticals globally. Therefore, I would not be on the back foot with respect to how the advertiser trends are going, rather we should be optimistic about how Affle will continue to deliver growth going forward.

Rahul Jain: Sure, that's comforting. Last question. If you could shed color on how the tech capitalization and Free cash flows have played out this year and also input on the plans going forward?

Kapil Bhutani: Our investment in tech innovations was about USD 6.9 to 7 million for FY2022, which was as per the plan. There was no overshooting of the expenditure there and we expect good results coming from those innovations. Our plan for the next year is for about 4% of the revenue to be invested in innovations i.e around 4% +/- 25 basis points variation, would be the plan to invest.

Free cash flows have been to the tune of Rs. 153-154 crores in FY2022. If you see that the investment in tech innovation was about Rs. 53-54 Crores and about Rs.2.5 Crores was an investment in the hardware, that is the investment into the capex. Rest if your see in our Cashflow Statement, the capex on account of the acquisition accounting is about USD 2 million+ i.e. Rs.15 Crores+. That needs to be taken out (not to be considered) for the calculation of Free cash flows.

Rahul Jain: Thank you. That is it from my side.

Moderator: Thank you. We take the next question from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Thank you for taking my question. Congratulations on a great set of numbers. My first question is about the organic and inorganic components. Anuj, I believe you mentioned there was about 45% growth in the organic business. Deriving from that, the organic revenues would be around Rs. 203-205 Crores and the balance from Jampp, right?

Anuj Khanna Sohum: Yes, that is correct.

Mayank Babla: My second question is that we are hearing there is a lot of talent crunch in the tech space in the IT/Tech industry, so part A of the question would be are we facing a similar kind of heat in our business also? Part B would be that if at all we are facing the heat, does our margin aspiration over the next two years remain the same as per our previous commentary?

Anuj Khanna Sohum: Firstly, the overall tech stack of Affle is anchored by our tech teams, which are based not only in India but also based in Spain, Argentina, Israel and so on. We have a globally distributed innovation capability. If one particular market in India for example, the IT sector is talking about facing certain challenges, we at the moment are witnessing a fairly sensible neutralization effect because not only are we compensating our teams on fair market compensation in terms of cash but also as of last year in October, we have given Affle India stock options to a number of employees. If I am not wrong, around 100 employees have become beneficiary of that. There are multiple ways in which we incentivize and retain our talent and inspire them with good quality work, career satisfaction, career progression, fair market compensation in cash terms and stock options. All of these taken into account, we believe that we are actually one of the rare companies where not only entrepreneurial talents but also tech talents not just in India but globally as well, would be attracted to in these times. Given the kind of resilience that we have shown as a company in the last one year against tough and ever-changing dynamics whether it were geopolitical issues or data privacy issues. I believe the kind of strategy execution that we have delivered within our company inspired a lot of confidence and thought leadership in our industry. What is happening is that the employees of our competitors or even people who are in the industry are looking at us with a lot more respect and there is a lot of pull factor to attract talent. People would want to work for a company like Affle. I believe that will help us to build pride internally within the employees to stay on and also help us to find a fair way of bringing in more talent into the company as we expand. I do not expect any dramatic changes with respect to our ability to earn a bottom-line sensible margin growth performance for the company.

Mayank Babla: As per the previous commentary that we could in over next two years scale up our operating level profitability to 20% plus remains the same as it is, right?

Anuj Khanna Sohum: Yes, we take a 24-month view to it. The reason for that is that the contribution of Jampp is significant and it is still in the mid to high single-digit EBITDA performance at the moment. We are looking at the next 24 months closely to transform it to mid to high teens in terms of its bottom-line performance and that alone should impact the overall bottom line margin performance of the company towards the kind of numbers that we hope to achieve.

Mayank Babla: Last question. If possible, could you share the number of user conversions in Jampp?

Anuj Khanna Sohum: We have not split that out but I believe overall what is important is that when you look at this quarter and you see about 122% growth y-o-y from Q4 and about 109% growth in FY2022, we find that we have achieved it at the back of about 91% growth coming in from the number of conversions itself. The fact that we have grown our CPCU rate by about 25% from Rs. 40 odd to Rs. 51 and when we look at these two factors, they contribute to over 90% of our revenues. This is where we derive the growth comfort from. It's a fairly balanced growth that we are seeing in terms of organic as well as inorganic. About 45% organic growth that we have delivered in this quarter is record-breaking on a broad basis both in India as well as international and it is all anchored on conversions and the CPCU pricing. Jampp's contribution is lesser on conversions and more on the CPCU price increase because the international markets have a slightly higher CPCU rate.

Mayank Babla: Thank you so much and best of luck to the entire team for the coming years.

Moderator: Thank you. We take the next question from the line of Vikas Mistry from Moonshot Ventures. Please go ahead.

Vikas Mistry: Thank you and congrats on the good set of numbers. I have a couple of questions. Firstly, what is your net revenue retention in the customers and what is the churn rate? How much of it is coming from VC-funded customers?

Anuj Khanna Sohum: The way to look at our revenue from a customer lens perspective is not just the retention figures because we have not disclosed it but we have shared the direct customer revenue coming from the E-F-G-H category. It is already about 74% of the revenue which means that there is no middleman involved in that revenue coming to us. We can have direct control over how much revenue from a particular customer and what kind of risk management & sustainable growth trajectory we take on that basis. In terms of the further aspect at these industry verticals which have a disproportionate contribution to us with E-F-G-H category, about 90% of the revenues come from there. These are high growth industry verticals and these are not just startups with Series A or B funding. I believe we are talking about enterprise-grade customers and the ability to predict that these customers would continue to spend and grow their spends for at least next two to three years. That is the kind of selection process that we usually follow. Can I split this into what percentage of these are government-funded or VC-funded or large enterprises? I believe we do not have the data available for you at the moment but the quality of revenue is clearly there. The focus of our company is not just on margins and profitability, but on operating cash flows as well. It will give you a sense that we are deeply grounded in the financial fundamentals of every unit economics of per campaign per customer. We watch it closely. I believe we should not have any risk factor concerns with respect to the quality of revenue or the ability to retain these customers or to continue to grow on these customers. I am not in a position to provide you with the specific number that you asked but basis the data that we publish, I have tried to give you a qualitative sense of the quality of our revenue.

Vikas Mistry: That is helpful. My second question is on the cost of inventory & data cost. We use the CPCU model and our algos work around. We have not seen a decrease in inventory & data cost till now though we might have developed good DMP which is quite strong. Therefore, we should have seen some decrease in inventory & data costs by now. How do we look forward to the inventory & data cost going ahead in terms of whether they would decrease or remain at this level?

Anuj Khanna Sohum: There are two things to this. One is when we look at inventory & data cost although the word cost comes here, but it also has an investment element to it. The intelligence that we had build is clearly helping in forward growth. The data insights and capabilities show what verticals continue to perform well and which consumer cohorts and segments are likely to convert for one vertical or the other. All of these deep insights are already there and are fully expensed out on each reporting period as a cost. The investment angle of what percentage of it is carrying forward investment that will help the company over the next two years is not shown in the financials. Our policy is conservative as we expense this out fully for each reporting period. Some efficiencies are already there from an organic perspective which shows that not only has our revenue grown about 45% organically in this quarter but the profitability & the margins have expanded on an organic basis also. So much to the extent that even Jampp, which is a single digit EBITDA contributor and over 30% revenue contributor, with that still on an average consolidated basis, we are driving healthy bottom-line sensible financials of our company. Why is that happening? It is because the inventory and data cost efficiencies organically are already leading to higher margins and profitability in the business. We are still yet to achieve that kind of efficiency in Jampp. How will we move Jampp from where it is today over the next 24 months to a higher level of efficiency? A big part of that would come from inventory and data costs as well as the scale-up-based efficiencies that we will see across our verticals and the platforms working together and creating vicinity. Thus, there are efficiencies there and we have to see it from the lens of if we were to completely split our P&L into two parts organic and inorganic, then we would perhaps see it. At the moment, given the level of reporting that we do, this is a sufficient indicator that a) inventory & data cost is expensed out fully and it has an asset element to it as well which does not show in the financials; b) there are efficiencies organically, which are there and that is why our organic margins are growing faster than the organic revenue. The inorganic margins, because of the Jampp still less than a year old into our systems, there are still a lot of efficiencies to be derived from there over the next 24 months.

Vikas Mistry: Noted. My next question is that in our previous call, you mentioned that we were finding it hard for the conversion of Jampp to higher EBITDA margins which we had illustrated maybe for 12 months, but now we are guiding for 24 months. From that perspective, can we rule out that we would do any big acquisition in the near future because if we do so then it will drag our financials?

Anuj Khanna Sohum: Not at all. I do not know where did you derive in the commentary that we are finding it hard. Rather on the contrary, I believe Jampp has been one of the smoothest integrations. Within the first year itself, the kind of scale they had and the fact that we have not traveled and met enough due to the travel restrictions around the world, we have done phenomenally well in terms of what we have achieved with Jampp in year 1. Our updated goal on any acquisition has always been that within the first year we will bring it to single-digit profitability. We have already delivered that with Jampp and in the second and the third year, we will inch upwards. There is no magic wand that can shorten that cycle. But we have typically seen that our guidance on any acquisition had a three-year view to transform them to the same quality of bottom-line margin sensibility that we enjoy with Affle's organic business. Each inorganic business will have its journey in year one, year two and three. What we have done in less than year one with Jampp is fantastic and I am proud of it. What we will do in year two and three has a clear roadmap. I believe we are on track with our stated model.

Moderator: Thank you. We take the next question from the line of Arun Prasath from Spark Capital. Please go ahead.

Arun Prasath: Thanks for the opportunity. Anuj, thanks for your explanation on what is happenings with Jampp and which is good to hear. I hope that there will be a turnaround in its story. Just wanted to understand that when we say turnaround, what exactly do we mean? If you can take us through a top-level view of how we go about the turnaround of the acquired companies?

Anuj Khanna Sohum: The first thing is to focus on deeper data science, insights and integrate the full muscle of the tech stack and platform to benefit not only the advertisers and customers but also enhance the margin & scalability of our business and platform. Second is the discipline, the discipline and focus on not just growth but on the unit economics of that growth as well. How much do we charge on the CPCU rate? What is the inventory & data cost? How do we make sure that all line items of the financials are handled with great discipline and good governance? I believe these are already happening in each of the acquired assets. This is how we have delivered great outcomes with Mediasmart, Appnext and now with Jampp within the first year itself. The emphasis is on leveraging the strategic capabilities of the platforms as well as on the discipline with which we have always run our company. Whose revenue do you accept and how much do we accept? The quality of revenue and the credit checks on that, the discipline on collections and all of this is not something that every organization is born with. I believe Affle has these as a part of its core DNA. Thus, when we acquire an asset we make sure that we bring it up to speed on all of those elements, both strategic as well as on the discipline of the organization. I believe we are doing well with that. The Jampp founder and the management team have responded and embraced it in a natural way.

Arun Prasath: When you said that by the end of year one, you would bring the acquired companies up to single-digit profitability margins, are we referring to EBITDA margin or PAT margin?

Anuj Khanna Sohum: I was referring to both EBITDA & PAT margin. Also, I am looking at cash flows and want to make sure that every single part of our organization achieves the same level of unit economics that we are enjoying in our organic business. We are not compromising on any level of EBITDA, PAT or cash flow from operations as a percentage of PAT. All these metrics have to add up and inch upwards to where the overall Affle group is.

Arun Prasath: Just to be clear, when you said that the Jampp margins are on a mid to high single-digit. Is that the EBITDA margin you were referring to?

Kapil Bhutani: Yes, this is EBITDA margin in the single digits on the higher side. I would like to state that about 7% of the EBITDA percentage is from the Jampp business at the moment. We have been stating that we have a turnaround time of about two years to take it to the mid-teens from where we acquired them i.e from almost zero EBITDA levels. We are happy with that progress on the EBITDA front.

Arun Prasath: 7% EBITDA margin at the end of year one. You had mentioned that in year two you wanted to take it up higher, any internal targets for the Jampp?

Kapil Bhutani: It has been mentioned that the mid-teens is the target.

Anuj Khanna Sohum: We do not give specific guidance for the future but whenever we do any acquisitions, what we have definitely shared is that in any acquisition we do, especially if they are breaking even or at zero percent EBITDA at the time of the acquisition, we will work only on acquiring those assets where we have a clear execution path and conviction that within year one we will bring it to mid to high single-digit margin performance on EBITDA, within year two, take it to the mid-teens and by year three, we bring it closer to 20%. This is our stated model and thesis for justification of inorganic transactions which are at a breakeven level at the point when we meet them and acquire them. This is not Jampp-specific guidance on a particular unit or for your modeling purpose. It is a complete thesis of how we justify any inorganic investment into assets like this.

Arun Prasath: That is helpful Anuj. My second question is on Google. If you remember in mid of February this year, Google came out with the announcement they are extending the Privacy Sandbox with the mobile as well. Any thoughts on how it is different from our thoughts originally? How Google will implement the privacy-related regulations and how are we internally preparing for this?

Anuj Khanna Sohum: Sure. Firstly, we always expected Google would come up with some announcement to that effect and I was not surprised at all. Secondly, our interpretation of the announcement is that they are going to do some tests over the next couple of years and then about three years from now, they will go ahead to implement and roll out something. I believe, it will be a significantly diluted version of what we saw in the previous financial year on the iOS platform. The fact that we have already negotiated the change on the iOS platform in developed markets like North America and found a winning strategy on that with customers makes us very confident that when such a change will eventually happen in a very diluted way on the Google platform, which will happen in two to three years time frame, it will be easy for us to maneuver the transition. What I want you to take comfort out of it is that irrespective of any changes in data privacy laws or with respect to any platform level changes, one thing that is is not going away from any of us is that You and I as consumers are going to be deeply married to our smartphone touchscreen devices for many years to come. Consequently, the advertiser's budgets will continue gravitating towards digital, mobile and connective devices. If the advertising budgets are deeply gravitating towards digital and the consumers are gravitating towards their mobile screens, then the relevance of the growth momentum of a tech platform like Affle is established out of those two megatrends that do not change and will not change over the next three to five years. Now, what may change is how the tech platform eventually tweaks and deliver. On that front, we have shown a track record over the last 17 years because our company has only been focused on mobile marketing and nothing else since our inception. We have negotiated all changes whether it is Nokia and Blackberry going down from 2005 to 2010-2011 to the changes in the ecosystem that have happened over the last five years. I believe you can see that Affle consistently has the ability, leadership and agility to address all the changes and transform such changes into opportunities like we did last year as well on iOS in the North America and developed markets. We are confident that whatever the low of the industry today and what we predict of the industry today with respect to Google and related changes over the next two to three years will not lead to any dramatic change in how we expect growth from Affle for our business across emerging markets and verticals. It is because we have advertisers on one side who are not going to spend lesser and on the other side the consumers who are going to continue to transact and convert more to digital experiences.

Moderator: Thank you. We take the next question from the line of Aniket Pandey from ICICI Securities. Please go ahead.

Aniket Pandey: Thank you for the opportunity. One question for Kapil. Just wanted to get a sense of the employee cost outlook. Firstly, going forward will ESOP cost impact come in Q1 also? Secondly, any outlook on the employee cost in subsidiaries in Argentina because right now the inflationary environment is quite high in Argentina?

Kapil Bhutani: Firstly, the impact on Argentina was there in Q3 also but the impact was higher in Q4 and that is why we segregated the number. However, we would like to mention that the impact at the PBT level is nullified by the counter accounting into the foreign exchange gains coming in Other Income. But, it has an impact on the EBITDA level as it changes the EBITDA ratio. On the PBT line item, the impact is minuscule, say 0.1%-0.2% up and down. On the expense line item, if you compare it expense-to-expense, there can be some differentials on that front and we will keep on giving the disclosures if there are any material changes. We expect the inflation to move in the same line as last year, but the Q4 inflation was higher and thus, had a higher impact. To give you an example, there was an impact of about 3.2% from last quarter and it was about a third of the impact in Q3, so it is variable to the general price index and the counter impact goes into the foreign exchange calculations on the other income side which are not taken into the EBITDA calculations. At the PBT level, it does not make any difference but only changes the dynamics of the EBITDA calculations.

Aniket Pandey: My next question is can we get a sense of your margin trajectory going forward in FY2023 or FY2024. My sense to that is will your inventory and data cost remain elevated above 60% of your revenues or will it come down in FY2024 a bit?

Kapil Bhutani: We do not expect any dramatic changes in the margin profile as we have already stated many times on our unit economics as well as the financial matrix that all the efficiencies we draw from inventory cost are being reploughed as an investment in growing the businesses. We are doing indirect investments in growing the geographies and emerging verticals. This investment is being used to grow the other verticals that are emerging into digital marketing on a CPCU basis. On the employee cost, as we grow at our stated scale, I believe that there would be an increase in employee cost because you do need feet on street to run the business also.

Aniket Pandey: Correct. One last question. In the last six months, we saw Google changing its advertising & privacy policy and bringing FLoC into the advertising medium. Did we see any changes in the behavior of customers' advertising spend? Similarly, now Netflix is also planning to get into advertising. What can be done to gain more market share in our connected TV network?

Kapil Bhutani: Affle will get access to these inventories directly if we are not getting it from SSP or Google ad platforms. We will find a way of getting the advertisements through different SSPs or different ways of engaging. We do not think that the SSP inventory will be blocked for us as there are new ways of connecting to the users of these tech platforms.

Anuj Khanna Sohum: If I may add that what you are seeing with Netflix is that it has been one of those platforms which are always charging the subscriber to pay for the content on a subscription basis. This is an extremely positive statement from Netflix where they are now saying that they will have a version that will be more ad-monetized rather than subscriber paying. This is what we want to tell all our investors about this fundamental trend where the consumers are on the digital screens & devices and are increasingly willing to spend more on digital devices. Yet, you are finding trends from companies like Netflix who are saying that instead of charging the consumers, we are going to make money from advertising because after a certain point, the willingness of the consumer to pay for content or subscription services will be just for a few select apps. But, for the long tail of apps and consumers there is only one model that seems to have thrived over the last two decades which is advertising subsidized content, apps and website. That is what you will see even for the most premium platforms like Netflix. They will need to come to that because the consumers especially across the emerging verticals and emerging markets are going to demand that. Even the affluent consumers or lets say for somebody like me, you can give me 10 apps and I will say I can choose one of the apps for which I can pay, but for the other nine apps, I will take the ad-funded model. Therefore, this trend of advertising and the consumers accepting those advertising linked business models from even the premium service provider is the biggest reassurance that the investors can have that the ad tech digital business model is here to stay. Also, dealing with it responsibly with ongoing data privacy, which is where regulations come in. It is a much better ecosystem for the future, consumers and advertisers. I am confident that we will see continued growth in digital advertising as an industry.

Aniket Pandey: Thank you very much.

Moderator: Thank you. We take the next question from the line of Anmol Garg from DAM Capital. Please go ahead.

Anmol Garg: Thanks for the opportunity. A couple of questions. Firstly, from the outlook on the changing Google policy, can we expect any changes in the CPCU rate once the policy is implemented? Secondly, as we are operating in different geographies - US, Latam and Europe, what is your outlook on the demand in those geographies? Also, now that we have been saying that we expect about 30% to 35% of industry growth into the Indian ecosystem, what growth can we expect from Latam and US? Can a similar growth be expected from these geographies as well?

Anuj Khanna Sohum: Right, I believe the first question on outlook with respect to Google is a two to three-year forward question. My take on that is there will be a lot of adoptions from consumers who will accept consciously and give permission and consent to ad-funded apps they trust. Companies like Netflix or all kinds of apps will be there, some will be well-known names, some will be lesser-known names and millions of apps are out there. But the consumers will selectively give consent to quite a several apps they would want to try and use on their devices. It is because the first thing that the consumer would want to do is try an app, be fine if it is ad-funded and fine to give consent. If they like the app too much then maybe they will agree to pay for the non-ad funded premium experience also. I believe that the Google policy is not necessarily going to change the larger consumer trends and behavior on digital adoption and consumption. In that respect, the CPCU rate for us will continue to see an upwards trajectory and growth as we continue to grow our business not only in emerging verticals in emerging markets but also in emerging verticals in developed markets. Very importantly, as we see the Indian economy will continue to grow over the next several years, we will find that the advertisers will have a higher willingness to pay for conversions that are even happening in India. Therefore, I expect the CPCU rate to inch upwards even with or without the Google changes over the next three to five years. The second question was about demand across geographies. While I have an industry report that is talking about India specific average growth of about 32%, specific vertical-based growth of even about 35% for the next few years, there are lesser fragmented industry reports for let us say other emerging markets in the world. But my overall outlook for other emerging markets is specifically the verticals that Affle is focused on. It is our internal view that should also be in line with the kind of growth we have seen in India. These markets include Indonesia, Thailand, Malaysia, Philippines and South East Asia. It will also include the Middle East & Africa and Latam, etc. When we look at developed markets we would also see a significant shift happening in emerging verticals also, in favor of deeper growth in digital over there. I am quite bullish when we holistically see the overall industry trend. It should be close to 30% to 35% for the next couple of years at least. This gives me a lot of confidence to say while Affle has historically been beating or even in this quarter we have organically beaten the growth trend by achieveing about 45% revenue growth y-o-y. It gives me a lot of confidence that we are doing it even with tough macroeconomic conditions and geopolitical risk factors which are there. Since our business is so broad-based across so many geographies and verticals, we should be able to keep up the growth momentum.

Anmol Garg: Sure, thanks. If I can add one more question. Can you highlight what is our policy regarding the acquisition and are we particularly looking to acquire any companies in India or outside India right now?

Anuj Khanna Sohum: We do not want to give any indicative competitive advantage to our competitors to know about our acquisition strategies, but what I would want to say here is that inorganic growth has been a core part of the strategy while organic growth has been very robust. When we look at it through that lens, Affle through organic growth alone will exceed the expectations of most stakeholders in this ecosystem whether it is internal employees, investors, analysts or any other stakeholders in the ecosystem. When we will look at our organic growth alone backed by the fact that the industry across emerging markets and verticals is going to grow fast and will exceed most internal and external stakeholder's expectations. Therefore, there is no pressure to necessarily go and do something inorganic. When we find a strategically well-sitting inorganic target at the right price point which the market will certainly provide in the next one to two years. As some of you allude to the fact that funding will be harder, it is not necessarily going to be easy for the entrepreneurs who may not necessarily have scaled up to a certain level. Thus, we will find very attractive price inorganic targets in the next one to two years and we will keep a strong balance sheet, our financial discipline of generating good cash flows internally and so our cash reserves in the balance sheet will only grow. When we find the right target without any pressure and the right strategic fitment that we see will help the company whether in India or internationally, then we will certainly execute sensibly and carefully as we have always done. Am I giving you any guidance in the short term whether we can acquire something or not? Not at all. There is absolutely no pressure and we will do a sensible inorganic growth plan. We will certainly do it but we will time it to our advantage.

Anmol Garg: Sure. Thanks. This was helpful.

Moderator: Thank you. We take the next question from the line of Pritesh Thakkar from Asian Market Securities. Please go ahead.

Pritesh Thakkar: Thanks for giving me the opportunity; I just have one question, any progress on (inaudible). Any color on that?

Anuj Khanna Sohum: Sorry, Pritesh, you were not audible, but it seems like you are asking about our strategy in emerging markets. Is that correct?

Pritesh Thakkar: Yes, that is correct.

Anuj Khanna Sohum: I would like to build the answer towards a larger understanding of most of us on this call today. Affle is one of the only companies in the marketing tech & ad tech space that is so deeply anchored on emerging markets and emerging verticals as our strategic emphasis and focus. If any investor anywhere in the world who wants to invest in the emerging markets in the digitally connected devices linked growth plan, there is no other company that I know of which is so deeply focused on executing and winning in these markets as a strong competitive advantage for the future. Most of our competitors which are listed or privately held companies that have access to funding or have already raised funding are not as deeply focused or anchored on emerging markets. Therefore, our competitive moat across emerging markets is one of the strongest. Perhaps, if I may qualify based on my knowledge, there is no other listed company in the world that is as deeply focused on emerging markets as we are and that creates the scarcity value as well. A lot of the investors have understood this advertising over the years in developed markets and if they believe in the thesis of emerging markets they will find that there is no other strong credible player that is executing well across emerging markets. Our view on emerging markets is strong and we extend that view by focusing on emerging verticals even in developed markets where we have shown good success and track record so far.

Pritesh Thakkar: Yes, Sir, so it was more on the investment part on emerging markets. (Inaudible)

Anuj Khanna Sohum: We cannot understand your question and I request you to e-mail your question to us Pritesh.

Pritesh Thakkar: Thank you.

Moderator: Thank you. We take the next question from the line of Reshab Sisodia from Concept Investwell. Please go ahead.

Reshab Sisodia: Sir, two small questions. Firstly, if you could shed some color on the organic part for the full year FY2022?

Anuj Khanna Sohum: For the last three quarters, we have always given a clear commentary on our organic growth on q-o-q and y-o-y basis. I do not have full year statistic with me at the moment, but it will be fair to say that our organic growth has been consistently above industry average growth trends. In that sense, the fundamentals of our business are deeply anchored in every single reporting period that we have talked about. I would say that the organic growth has been consistently above industry average growth rates especially in the last financial year.

Reshab Sisodia: Thank you. Last one. Given the last acquisition that we had Jampp and Appnext. I remember that management (inaudible) Bobble AI and interconnecting our platforms. Any color on that how are we looking at it going forward in the emerging and the developed market? How do you see all our businesses getting connected as a one-stop solution to the customer?

Anuj Khanna Sohum: If you find the presentation shared on Investors Day in December 2021, we had unveiled our Affle2.0 Consumer Platform Stack and how the entire strategy, culture, tech and all the different platforms that sit on top of that backbone. Also, how they coherently deliver a unique strategy and execution. As part of that stack, the 100% acquired businesses and the integration of it into that stack has already happened. We are leveraging that into our execution as we go along. Even for the inorganic or let us say our minority investment through commercial & strategic partnerships, integration of SDKs and our server-to-server integrations, we are able to leverage those into the overall stack as well. I believe the question about how it offers one integrated Affle 2.0 Consumer Platform Stack has already been unveiled in detail. It was an almost two-and-a-half-hour discussion along with a presentation with all the investors in December 2021. We will continue to do that once a year as an event and will make it happen this year as well. We will keep the opportunity to elaborate it in a much more detailed and descriptive manner for you to see the customer testimonials, much deeper case studies, the demo of our platforms and the capabilities of our platforms dived deeper than what we can do in our earnings call. We look forward to that again later this year.

Reshab Sisodia: Sure, thank you.

Moderator: Thank you. We take the next question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Hi, Anuj. When you talk about organic and inorganic growth in terms of your formal structural narration, for how long do you categorize it in acquisition business growth and at what point of time do you start labeling it as organic growth. Both in terms of structural formal narration vis-a-vis in your mind?

Anuj Khanna Sohum: Your question is about how many years do we expect to focus on acquisition as a growth strategy as well as organic growth? Can I get to the essence of your question?

Bharat Shah: When we acquire something, if it is at a relatively incipient stage in its journey and therefore, the growth which comes from into revenue or profit maybe is from a stage of evolution. You mentioned that in the last quarter almost about 65% of our business has come from organic activity that we have done over some time and about 35% come from acquisition. At what stage an acquisition in your mind is like an acquisition? When it is fully integrated? Also, we you say that about Rs. 205 Crores is organic revenue growing at a rate of about 45% which is a very impressive number. In terms of your formal guidance on numbers like these, from what period do we typically or by what criteria do we label something acquisitive and at what point of time, it stops being described as an acquisition.

Anuj Khanna Sohum: I understand your question now. Typically for us, within the first year itself we would see that the acquired business has become an integrated part of Affle2.0 Consumer Platform Stack. Post the first year, we would treat it as part of an integrated platform and execution. I believe all the hooks and the necessary integrations have to be mandatorily completed within the first four quarters of the acquisition itself. We have done that sensibly for almost every single acquisition. Post that period, we would see and define its overall growth trajectory as part of our organic growth plans and would no longer see it as an acquired or separate affair. As far as the reasonableness of that year one assumption is concerned, we back it on the track record that every single acquisition that we have done, we have managed to achieve that within the first year itself. If ever it will happen in future that would take a bit longer, then we will certainly advise on that. At the moment, it is sensible for us to not only work on the template, but also commit towards delivering that internally and even be an acquired asset. That is because the employees and the integration of all in terms of the culture, strategy and platform, etc. have to be taken care of within year one itself. Otherwise, chances are that it would become a failed acquisition and so far we had the good fortune of not seeing anything like that.

Bharat Shah: So to put it simply, Year one is an engaging affair and thereafter it converts into marriage?

Anuj Khanna Sohum: Yes. Also, even before we get into the engagement if you see almost for all our investments that were 100% acquired by us, the courtship period even before we signed an MoU, has been a multi-year long period before we go deeper into the marriage. By the time we sign the contract, there are a lot of things that have been taken care of. The first year is the actual execution on that, which is carefully assessed by us. There is never a case of speed dating where we think that let's just go ahead and do something. No! It has been three to eight years long courtship period before we even sign a non-binding MoU for an acquisition target.

Bharat Shah: My second question is on unit economics. What I have understood so far is gross margin typically has been about 42%-44% range and operating expenses have been close to 16%-17%, therefore at an operating level of about 25%-27% margin. The acquisition will distort that picture, but that economics in your opinion is great except that acquisition may change those numbers for a given length of time?

Anuj Khanna Sohum: That is correct. What we want to guide towards or what we want all our stakeholders is to deeply be conscious of the fact that as the management of the company and as the leadership team of the company, we are deeply cognizant and care about bottom-line sensible, sustainable, profitable growth as a DNA of the company. I have built this company for 17 years with that DNA and nothing in our execution plan is going to allow that to change. Therefore, any acquisition that we do or the organic unit economics of the company is important for us to run a sensibly profitable and cash-flow positive business. Sustainable growth mechanisms are key to our financial performance. It is not something that we are seeing because we are now a public-listed company and that is what you would like to hear. We have been doing this even before we went public all along and that is the main reason why the management team of the company and the promoter group of the company are still able to retain almost 59.9% ownership of the promoter group holding company in Singapore. Otherwise, we would have been deeply diluted if we were not capital efficient. Thus, this unit economics even for inorganic business is distorted a little bit but that distortion is a necessary investment to create much greater scale and value creation for the stakeholders. That's because when we acquire the asset, they are breaking even. The value at which we acquire is sensibly placed for where we read them. When we transform them into a much more valuable unit over the 36 months, the first 12 months and the next 24 months period are about unlocking value for all our stakeholders. Please do not see distortion as something that will bring the margins down and affect the financials. We have to see it as a great investment if Affle can transform it successfully as we have already done with most of our past acquisitions. It is a brilliant thing to happen if it can keep on happening consistently and so far our track record shows that we are doing it consistently.

Bharat Shah: That is well known and deeply appreciated, Anuj. Thank you and all the best.

Moderator: Thank you. Due to time constraints, I now hand over the conference to the Affle Management for closing comments. Over to you Sir!

Anuj Khanna Sohum: Thank you so much everyone for attending the call. All your questions were insightful. I enjoyed the earnings call and the Q&A session today. I wish all of you well and as I have always mentioned that Affle is "Built to Last". We are here for the long-term and you will hear a lot more from us as we go along and evolve as a company into the great corporate citizen that it already is. We will continue this time to build Affle into an institution. I look forward to all your questions, and support and wish all of you well. Take care!

Moderator: Thank you. On behalf of the Dolat Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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