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GRAB.OQ - Q1 2023 Grab Holdings Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for joining us today. My name is Emily, and I'll be your conference operator for this session. Welcome to Grab's First Quarter 2023 Earnings Results Call. (Operator Instructions) I will now turn it over to Vivian Tong to start the call.

Vivian Tong - *Grab Holdings Limited - Head of US IR*

Good day, everyone, and welcome to Grab's First Quarter 2023 Earnings Call. I'm Vivian Tong, Head of U.S. Investor Relations at Grab, and joining me today are Anthony Tan, Chief Executive Officer; Alex Hungate, Chief Operating Officer; and Peter Oey, Chief Financial Officer.

During the call today, Anthony will discuss our key strategic and business achievements, followed by Alex, who will provide operational highlights, and Peter will share details of our first quarter 2023 financial results.

Following the prepared remarks, we will open the call to questions where Anthony, Peter and Alex will respond to the Q&A.

As a reminder, today's discussion contains forward-looking statements about the company's future business and financial performance. These statements are based on our beliefs and expectations as of today. Actual events and results could differ materially due to a number of risks and uncertainties including macroeconomic, industry, business, regulatory and other risks, which are described in our Form 20-F for the year ended December 31, 2022, and other filings with the SEC.

We do not undertake any obligation to update any forward-looking statements. The discussion today also contains non-IFRS financial measures, which should be considered together with rather than a substitutes for IFRS financial measures. A reconciliation of non-IFRS to IFRS financial measures is included in this quarter's earnings material. For more information and additional disclosures on recent business performance, please refer to our earnings press release and supplemental presentation for a detailed first quarter 2023 financial review, which can be found on our IR website.

And with that, I will turn the call over to Anthony to deliver his opening remarks.

Ping Yeow Tan - *Grab Holdings Limited - Co-Founder, Chairman & CEO*

Thank you for joining us today. We kicked off 2023 with a solid set of results for the first quarter, consistent with our focus to drive sustainable growth, Grab's year-on-year performance was strong with revenues more than doubling and adjusted EBITDA losses being reduced by 77%.

With 5 consecutive quarters of adjusted EBITDA improvements under our belt, we remain disciplined in executing our strategy, accelerating our path to profitability and extending our category leadership across Mobility and Food Deliveries. As we look ahead towards the rest of the year, we expect continued growth off the back of 4 key trends that we are seeing.

Firstly, we're seeing encouraging user trends. Monthly transacting users on our platform are growing at a healthy pace. We remain focused on building more innovative and affordable products and services that will allow us to sustainably serve a greater segment of Southeast Asia.

Secondly, Mobility demand continues on a positive trajectory, with travelers returning to Southeast Asia and demand picking up domestically. We've rolled out a series of product enhancements and partnerships to capture a greater share of the high-value traveler market and are optimistic about further recovery in the tourism segment, especially with China's reopening.

Thirdly, despite seasonal headwinds impacting Deliveries in the first quarter, we strengthened the profitability of our largest segment. Our focus on offering the best range of choice, affordable options and value from our GrabUnlimited subscriptions program positions us well for the rest of the year.

Finally, Demand for Financial Services within our ecosystem remains very healthy. We're seeing greater lending activity with the rollout of several credit products across various markets, including GxS Bank in Singapore. And this is all being done in a risk prudent manner.

I also want to share my thoughts around AI, which has always played a key role on our platform. We were early adopters of data science in the region and our unique and high-frequency data set enables us to build highly effective tools that boost our competitive advantage. An example of how we're using AI is demonstrated by our use of heat maps. In our early years, these heat maps help to create more income opportunities for our driver partners. And today, they're even more robust.

Combined with other AI tools, these heat maps are also used for better fulfillment of our on-demand services. This has helped to reduce surge pricing, create more efficient trips and increase driver earnings. We're also using large language models to translate content and are piloting several initiatives to drive higher cost savings.

We are excited to leverage generative AI to further boost productivity. We anticipate that it will play an increasingly important role for us to deliver better user experiences and drive greater cost efficiencies across our platform. We're confident that our strength as a platform and understanding the Southeast Asian landscape should enable us to unlock more growth opportunities across the region. We will continue to set the bar high for ourselves and execute with cost discipline and focus to become Southeast Asia's largest and most efficient on-demand platform that enables local commerce, Mobility and access to financial services.

I'll now hand over to Alex to cover our first quarter operational highlights in more detail.

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Thank you, Anthony. I'll dive deeper into the business and operational highlights by segment, starting with Mobility. Mobility displayed strong year-on-year revenue and GMV growth in the first quarter. Demand remains strong with Mobility MTUs in the first quarter, increasing 28% year-on-year and 3% quarter-on-quarter, fueled by a return of international travelers to the region, as well as further normalization of local commutes across our markets. Notably, airport rides increased by 133% year-on-year and 7% quarter-on-quarter with ample room to recover further as we were still only at 69% of pre-COVID levels.

We've rolled out tech and product enhancements to support international travel demand including Chinese, Japanese and Korean versions of the app, menu translations and image-based guides to pick up points for more than 4,000 venues across Southeast Asia. We've partnered with other leading consumer apps such as WeChat, AliPay, Ctrip, Kakao and Booking.com to make Grab services available through those apps when tourists enter the region.

Our ongoing efforts to rebuild and optimize our driver supply base have also continued to yield positive results in service quality, including reduced average passenger wait time and a lower proportion of rides with surge pricing quarter-on-quarter. Driver metrics have also improved year-on-year in parallel. Active driver supply is up 10%, and both total active driver online hours and active driver earnings per transit hour are up by 14%. As a result of these initiatives in the first quarter of 2023, we extended our category leadership in ride-hailing across the region over the prior quarter.

Over the rest of this year, we expect to see a continued increase in demand from travelers and local commuters. At the same time, we will push deeper into every market by offering affordable Mobility options across the region, including relaunching Grab share.

Now let's review our Deliveries business. As expected, we saw some softness in GMV for the first quarter due to seasonal impacts. This was the first Chinese New Year since the onset of the pandemic where restrictions were lifted, which means a lot more in-person social gathering, replacing some of the Food Delivery demand during the lockdowns. The Ramadan fasting period also began towards the end of the first quarter as compared to last year when it began in the second quarter. Moving past these seasonal headwinds, we're expecting Deliveries GMV to pick up. There are several key drivers for this.

Firstly, we believe that our focus on improving platform affordability should attract more users to our platform. For example, we have rolled out features such as Saver across more markets, which enables us to improve batching, while offering a lower delivery fee option for users in exchange for a slightly longer delivery time. Secondly, we continue to drive up user engagement and stickiness with GrabUnlimited. Overall, in the first quarter, GrabUnlimited users accounted for over 1/4 of Deliveries GMV. Engagement levels also continued to be healthy. With GrabUnlimited users continuing to spend 3.7x more on Food Deliveries than non-subscribers in the first quarter.

We are also focused on platform efficiency to continue reducing our cost to serve. Improving driver-partner productivity is important in this regard, and we have managed to increase batching and trips per transit hour on a year-on-year basis. Average driver wait time at merchants has also reduced 36% year-on-year. We have lowered Deliveries incentive spend as a percent of GMV by over 470 basis points year-on-year to reach an all-time high of 2.6% of segment adjusted EBITDA margins. Despite this steep reduction in incentives, we were able to strengthen our category position across all our markets this quarter. This is because as the largest food delivery platform in Southeast Asia, we are able to harness efficiency gains from our scale, and we'll continue to optimize this to gain greater scale advantages going forward.

Next, on Financial Services. During the quarter, we posted strong revenue growth driven by lower consumer incentives and higher contributions from our lending business. Loan disbursements during the quarter grew 45% year-on-year as we executed on our strategy to lend to our ecosystem, where we feel that we can manage credit costs well. Consistent with this, credit costs continue to be well controlled in the quarter. We also improved our adjusted EBITDA for financial services.

In particular, we recorded a further reduction in GrabFin's operating expenses by 19% on a year-on-year basis and 10% on a quarter-on-quarter basis. This is building on the 11% quarter-on-quarter reduction in GrabFin's operating expenses that we achieved in the prior quarter.

GxS in Singapore launched the FlexiLoan product, the bank's first lending product which provides our customers with flexible repayment options tailored to their financial needs. Deposits at GxS are right below the initial deposit cap set by the Singapore Central Bank regulator, so we are working closely with them to increase this cap. We are also working closely with the Malaysian and Indonesian Central Bank regulators. And I can confirm that we remain on track to launch our Digibanks in both countries later this year.

Lastly, within the enterprise segment, we continue to build out our advertising self-service platform to reach more merchants and to improve the monetization of our ads business. In the first quarter, we have seen the total number of active advertisers joining our self-service platform grow 33% year-on-year as we move to capitalize on this large opportunity.

As we look to the rest of 2023, we continue to stay focused on accelerating our path to profitability and driving sustainable growth for the long term. During the quarter, we demonstrated our ability to harness our scale advantage to improve efficiency while improving adjusted EBITDA margins and strengthening our category leadership. In the upcoming quarters, we will continue to pursue further opportunities as we scale the business to drive greater efficiency gains.

I will now turn the call over to Peter to review the first quarter financial results.

Peter Oey - *Grab Holdings Limited - CFO*

Thanks, Alex. We delivered a healthy set of results this quarter, setting a good pace for the rest of the year and remaining on track towards achieving group adjusted EBITDA breakeven in the fourth quarter of 2023. Revenues in the first quarter grew by 130% year-on-year or 139% on a constant currency basis and 5% quarter-on-quarter to reach $525 million.

The strong revenue growth came from all segments of our business. For Mobility, revenues grew 72% year-on-year and 3% quarter-on-quarter to $194 million underpinned by continued growth of international and domestic ride-hailing demand. For Deliveries, revenues grew by 203% year-on-year and 3% quarter-on-quarter to $275 million as we further optimize our incentive spend and saw higher contributions from Jaya Grocer. As a reminder, there was a change in business model in the prior quarter in certain delivery offerings in one of our markets, which is not reflected in the first quarter of last year.

Financial Services revenue for the quarter grew 233% year-on-year to $38 million from $11 million in the same period last year, and grew 38% from $28 million in the previous quarter. The improvement was attributed to continued growth in ecosystem lending and greater optimization of incentives.

For Enterprise and New Initiatives, revenues improved 29% year-on-year in the first quarter to reach $18 million as we focus on driving profitable transactions within our advertising business.

Turning over to Group GMV. We recorded year-on-year growth of 3% or 7% on a constant currency basis to reach $5 billion in the first quarter. On a segment level, Mobility GMV continues to grow strongly, increasing 46% year-on-year or 51% on a constant currency basis as we track towards pre-COVID levels by the end of 2023. Deliveries GMV was $2.3 billion and declined 9% year-on-year or 4% on a constant currency basis, and as Alex mentioned, we are comparing against the first quarter of 2022 base, where Deliveries demand was supported by COVID restrictions, and we are fasting during the Ramadan period only commenced in the second quarter. We expect deliveries GMV growth to pick up sequentially in the second quarter of 2023 as we moved past the seasonal headwinds and to drive further sequential growth in the second half as we improve engagement through GrabUnlimited and provide more affordable options.

Moving on to segment adjusted EBITDA. We reported total segment adjusted EBITDA of $150 million in the first quarter, a substantial improvement from a loss of $75 million in the prior year period. Segment margins improved 459 basis points year-on-year and 78 basis points quarter-on-quarter. A key driver of this improvement was the reduction of total incentives as a percentage of GMV, which declined from 11.6% in the prior period to 7.9% this quarter.

In Deliveries, first quarter segment adjusted EBITDA was $60 million, while segment adjusted EBITDA margins reached an all-time high of 2.6% of deliveries GMV. This is an expansion of 476 basis points year-on-year and 58 basis points quarter-on-quarter. The improvement in margins was driven by further incentives optimization. In addition, several of our core markets have now exceeded 3% segment adjusted EBITDA margins, giving us confidence as we track towards achieving our steady-state margin target of 3% plus for the segment.

In Mobility, segment adjusted EBITDA grew 85% year-on-year to $152 million in the first quarter. First quarter segment adjusted EBITDA margins was 12.4%, improving from 9.8% in the prior period, but declining quarter-on-quarter from 13.2% as we reinvested incremental margins to enhance platform efficiency and expand it into more affordable use cases. More importantly, at 12.4%, our margins in the first quarter are in line with our steady-state margin target of 12%.

For Financial Services, segment adjusted EBITDA improved to negative $70 million, representing a 32% year-on-year improvement. As a percentage of TPV, first quarter margins for Financial Services improved 93 basis points year-on-year to negative 1.9%, as we continue to streamline our cost base across GrabFin's businesses, with operating expenses reduced by 19% year-on-year and 10% quarter-on-quarter.

For the first quarter of 2023, group adjusted EBITDA losses were $66 million, representing a year-on-year improvement of $221 million. Group adjusted EBITDA margins also improved 464 basis points year-on-year. We remain confident in our trajectory towards achieving group adjusted EBITDA breakeven in the fourth quarter of this year.

For the first quarter, regional corporate costs were $216 million as compared to $212 million in the prior year period and improved on a quarter-on-quarter basis as compared to $223 million in the prior quarter. Overall headcount across our core segments and corporate functions had fallen sequentially now over the last 2 quarters. We will continue to be very focused on reducing regional corporate costs and in driving cost efficiencies across our organization. As Anthony mentioned, we're also in the early days of exploring AI productivity tools, which we believe have the potential to unlock further efficiencies and reduce costs in our business over time.

Moving on to IFRS loss. We reported a first quarter loss of $250 million, representing a 43% improvement from a loss of $435 million in the same period last year due to improving profitability on the group adjusted EBITDA basis. First quarter IFRS loss of $250 million includes $172 million of non-cash expenses below the adjusted EBITDA line. Of this, $103 million was from share-based compensation and $37 million from revaluation of Grab's equity investments, which are marked-to-market each quarter.

Turning to our balance sheet. Our liquidity and cash position continues to remain strong. We ended the first quarter with $5.8 billion of gross cash liquidity. Cash liquidity declined from $6.5 billion at the end of the prior quarter, with a substantial portion of the cash outflow attributed to the additional $600 million prepayment of our Term Loan B during the first quarter. Our net cash liquidity was $5 billion at the end of the first quarter as compared to $5.1 billion in the prior quarter.

As we look to the rest of 2023, we remain focused on our path to profitability while driving sustainable growth. With Mobility GMV reaching another post-COVID high in March and demand continues to be strong in April, we anticipate sequential growth to continue on a quarter-on-quarter basis. We maintain our expectations for Mobility GMV to reach pre-COVID levels by the fourth quarter of this year, while maintaining steady state segment adjusted EBITDA margins of 12%.

In Deliveries, we will continue to balance growth and profitability while driving towards our steady-state segment adjusted EBITDA margins of 3% plus. Notably, Deliveries transactions have rebound strongly in the back end of April, following the Ramadan fasting period, and this has been sustained into the early parts of the month of May. Overall, this gives us confidence that Deliveries will continue recovering into the second quarter of the year.

We are also tracking well towards improving our group adjusted EBITDA and achieving group adjusted EBITDA breakeven in the fourth quarter of this year. With all segments performing strongly on adjusted EBITDA in the first quarter, this has given us the confidence to revise up our full year group adjusted EBITDA target to a loss of between $195 million and $235 million. This is an improvement from our previous guidance of negative $275 million to $325 million.

In conclusion, our performance in the first quarter gives us confidence in our ability to deliver on our 2023 commitments over the coming quarters. Once again, Anthony, Alex and I would like to thank Grabbers for their hard work in making these results possible. We would like also to express a deep appreciation for our driver and merchant partners who continue to inspire us to deliver the best product quality in all of our markets.

Thank you very much for your time, and we will now open up the call to questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now start the question-and-answer portion of the call. Joining us for the question-and-answer session will be Anthony Tan, Chief Executive Officer; Peter Oey, Chief Financial Officer; and Alex Hungate, Chief Operating Officer. (Operator Instructions)

Our first question today comes from Pang Vitt with Goldman Sachs.

Pang Vittayaamnuaykoon - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Two questions from me, please. Firstly, I noticed from market trends that your market share for on-demand has improved considerably in the quarter, I think especially in Indonesia, your top line holding up stronger than peers. Can you share with us what have you done differently than your peers here? Also, are you able to provide more color on the strong growth trends you were seeing in April and May from Mobility and Deliveries. That's question #1.

Question #2, on your upgraded guidance on adjusted EBITDA. Can we understand what had changed in the quarter that allows management to see an improvement in EBITDA burn versus prior guidance. How do you plan to achieve this? And what does your guidance imply for segmental EBITDA across Mobility and Deliveries. Can you also walk us through your quarterly EBITDA trends even if you use the high end of your full year guidance and expect you to basically reach EBITDA breakeven by fourth quarter, we have to assume more quarter-on-quarter loss for second quarter and third quarter. So a little bit of the bridge here would be helpful.

And lastly, corporate costs, how do you expect that to trend after we saw a $7 million improvement Q-on-Q here and what is particularly your quarter with increment and promotion as well.

Ping Yeow Tan - *Grab Holdings Limited - Co-Founder, Chairman & CEO*

Thanks for your question, Pang. There's a lot to deal with. So I'll start and then Peter will continue.

Now during the quarter, we spent a significant amount of effort investing into improving driver supply. And our fulfillment rates also improved across all our countries. As a result, we actually saw the number of active drivers on our platform increased 10% year-on-year, while retention rates have remained healthy. Overall trips also per transit hour has improved, providing more income for our driver partners. As we continue to offer more affordable services across our markets, we've also managed to reduce the proportion of surged Mobility rides. I know probably good news for, Pang, that results in strong demand uplift. As a result, we see that our MTUs for Mobility in the first quarter increased 28% year-on-year.

Now we've also expanded our products to capture a wider range of the market. For example, GrabUnlimited and also Jaya loyalty program for our Malaysian supermarket, that drives up more user engagement, more stickiness at a lower cost. Just to share some quick numbers. Our GrabUnlimited users spend actually 3.7x more than non-Unlimited users. And GrabUnlimited now comprises more than a 1/4 of delivery GMV.

Now the second thing, talking about affordability options, such as Saver for Deliveries that we've launched across our markets or GrabShare for Mobility, that has been quite successful with price-sensitive customers. And then third, we've actually rolled out premium end offerings such as GrabCar Executive, which I hope many of you will try, and that provides a high-quality service to business executives across the region.

Now I remember you also asked a question about growth. On growth, we're actually encouraged by the rebound we are seeing. Now coming out of the Ramadan fasting period, that has seen continued growth even into the early weeks of May. On Mobility, we're expecting a very busy summer ahead of us with further rebound in tourism as well as increase in business demand. We're also slated to launch in Philippines, our 2-wheel services as part of our affordability push. And we also maintained our expectations on Mobility GMV to return to pre-COVID levels by the end of this year.

On Deliveries, we saw a strong bounce back, as I said just now in demand post-Ramadan in April. And in the early weeks of May, we're seeing continued growth. Going to the second half, we aim to sustain this momentum hosting laser -- laser-focused on driving towards adjusted EBITDA breakeven in the fourth quarter. So we will continue to innovate. We will continue to reduce our cost to serve. We'll continue to leverage our scale to improve affordability and serve more users in the region.

Peter Oey - *Grab Holdings Limited - CFO*

Okay. I'll take the second part of your question. And I think you had 3 parts. One was around what changed that allows us to see the improvement in EBITDA. So I'll address that first, which I'll dovetail in terms of our future, how do we think about future quarters about EBITDA, and I'll handle your original corporate costs in the final piece.

So we've now delivered, as you can tell, Pang, 5 consecutive quarters of adjusted EBITDA improvements. And you saw our first quarter results, which is very strong from an adjusted EBITDA. And that gave us a lot of confidence and also very encouraged to see how the business is trajectory for the remaining of this year. We're very laser-focused as Anthony and all -- you've listened to our prepared remarks in making sure that our Deliveries business consider margin and EBITDA continues to grow, and we reached 2.6% all-time high. We're very committed to achieve the 3% plus that we've always been mentioning in previous calls, and we are inching closer and closer, as you can tell, in getting to that 3% Deliveries margin.

You also saw improvements in our financial services. In the first quarter had a meaningful improvement in segment EBITDA and a ton of work has been going into our Financial Services in terms of operating costs. We -- to share you a bit of number here, if you look at our GrabFin business, our nonbank business, our OpEx reduction was 10% quarter-on-quarter, and that's on the back of what we delivered last quarter, which is 11% quarter-on-quarter reduction. So again, all these elements that we have gives us confidence in terms of how we think about the future quarter of 2023.

Now to your question, how do we think about future quarters. We do bake in some degree of conservatism in the guidance that I've given out. We're only in the first half of the year. And we're seeing some good traction, as Anthony just mentioned, in terms of what we're seeing in Deliveries as well as continuing strong demand in our Mobility business. And we'll continue to make sure that we can achieve and outperform what we're committing here in terms of guidance. But again, it's still early. There could be time-to-time when we make certain investments to make sure that our marketplace continues to be healthy. So that hope addresses the EBITDA.

So let me tackle now the regional corporate cost question, which is I think, if I remember, it was around how do we think about the future quarters of regional costs. Yes, we did see an improvement in regional corporate cost on a quarter-on-quarter basis. And we are continuing to look for opportunities, Pang, in terms of how we can get more efficient in terms of our cost structure.

I shared in the call that we've continued to bring our headcount down in 2 consecutive quarters now. We're seeing some really good tractions in terms of our variable cost structure coming down year-over-year and there's a ton of work that's done by our Grabbers across the board in looking at a cost and how we can be more optimized. So we're going to continue to look for opportunities.

And again, it's a journey that we're on. And each quarter, we're continuing to chip away at it, and we're not stopping. So we're going to continue to look for that opportunity, which ties back to our target to get to the breakeven of the fourth quarter this year, which we're committed to.

Operator

Our next question comes from Alicia Yap with Citigroup.

Alicia Yap - *Citigroup Inc., Research Division - MD & Head of Pan-Asia Internet Research*

Management, congrats on the solid results. I have to 2 a little bit more medium, longer-term questions. First is related to GrabFin's and the Digibanks. Can management share with us, what are several milestones that you would hope to achieve. For example, in 1 year, 3 years' and 5 years' time line in terms of some of the important metrics that you are using to measure your performance. For example, the MTU, the monetization per user, the take rate, the EBITDA margin improvement. So any comments or color you could provide would be helpful in terms of the 1 year, 2 years' and 5 years'.

Second question is on Mobility. I think these business segments will always encounter from time to time on various regulatory requirements, for example, the rider's income, rider's welfare, consumer safety, all these, but in the event, if the operating cost is ramping up, what is Grab as a whole, as a company, right to think about ways to mitigate the operations risk and also offset any margin pressure if there is?

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Thanks, Alicia. This is Alex. Why don't I answer both those questions actually. The first one on the Digibank. As you know from our Investor Day, we're focused on supporting our own ecosystem with our Digibanks, which we believe allows us to better manage risk and credit costs through the cycle. So much better than, for example, if we were a stand-alone bank outside of an ecosystem. And that's one reason why we expect to breakeven sooner than a stand-alone bank.

The other reason, of course, is we have lower acquisition costs because they're already customers of Grab. So as a result, as we shared during Investor Day, we aim to breakeven for the Digibank operations by the end of 2026, that's for all 3 banks, Singapore, Malaysia and Indonesia.

So to your question, I guess, the first key milestone that I can reaffirm with you is that we intend to breakeven across the entire Digibank operations by the end of 2026, 3-year, that's a 3-year milestone. Given that the Malaysian and Indonesian banks will only launch in the second half of this year, 2023.

Still early days for the Digibanks because we've only just launched in Singapore so far, and our growth has been limited by the deposit cap where we're basically operating already just below the cap. However, the key operating measures, just to share with you that we are tracking during this period are Net Promoter Score and other engagement measures around the transaction pattern.

In the longer term, the 5-year. Our vision is not to be the largest bank in our market. We are focused on supporting our own ecosystem. So the size will be proportionate to the GMV and the MTU base that the ecosystem has. We do believe that we can produce attractive returns because of the better risk management and the lower customer acquisition costs.

Okay. So I hope that's helpful. I give some idea of where we are now, where we'll be in 3 years' time and where we aim to be in 5 years' time. Maybe I'll turn to the second question about regulation.

You're right. One of the key sources of uncertainty in the region over many years has been the regulation around the gig economy as it has been in other regions. We've worked closely with regulators in every country over the years to take the lead, we believe, on both driver's welfare and consumer safety, the 2 key issues that you mentioned. And over time, we have demonstrated that we can create great income opportunities for millions of our partners across the region. So in the first quarter, as we mentioned earlier, the earnings per transit hour for our driver partners is up 14% year-on-year. So that's the main thing that the drivers are interested in, and it's also very important to the regulators because those income opportunities are very important for their local economies and for their constituents. That's the thing that we focus on above all.

But in addition to that, we do provide a range of welfare and nonmonetary benefits already. So things like financial services, upskilling courses, which we've done actually now for more than 1 million driver partners through the GrabAcademy. And then we provide work-related accidental insurance as well at no extra cost. So we believe we've been a leader. It's a win-win because that increases our retention rate for drivers and allows us to retain and grow the driver population sustainably over time.

And then the other key thing to your question, like if those costs do start to increase through regulation, then I guess the best -- the reason why we feel confident that we can still meet the steady-state margins that we've shared with you of 12% for Mobility and 3% plus for Deliveries is because we are the category leader in every market, and we are very focused on translating that category leadership into greater affordability, using the efficiency of the density that we have in every city. And that density is not available to our competitors, and therefore, they can't match us for affordability. So in sum, we believe that we will be best placed to overcome any of those additional costs, if indeed, they are applied over time.

We will continue to work closely with regulators across the region as we have in the past to keep the marketplace healthy and we'll continue to drive for greater scale benefits, which will help us to outperform through any ups and downs that might occur over time. But the key thing is that we are reaffirming that we believe those steady-state margins of 12% for Mobility, 3% plus for Deliveries are attainable despite the regulatory -- any regulatory changes that might occur.

Operator

Our next question comes from Piyush Choudhary with HSBC.

Piyush Choudhary - *HSBC, Research Division - Telecoms Analyst, South East Asia*

Congratulations on steadily narrowing the losses. Two questions from my side. Firstly, group MTUs have been stable quarter-on-quarter at around 33 million. So what efforts are being taken to drive growth in MTU? And can you provide us an update on the expansion to new cities to drive this MTU growth?

Secondly, in digital Financial Services, can you give us color on -- out of the total operating cost, how much is variable and how much is fixed? I'm trying to understand what is the room for either cost to come down or business with the same fixed cost can support much higher level of revenue opportunities. So is there a lot of operating leverage opportunity here? So your thoughts here and outlook for this segment would be appreciated.

Ping Yeow Tan - *Grab Holdings Limited - Co-Founder, Chairman & CEO*

Thanks so much. I appreciate it. On the first question on MTUs. Now MTUs actually grew year-on-year to 33.3 million in the first quarter. Now we are actually optimistic on growing our user base on the back of improving the affordability of our Deliveries services and our Mobility services, and alongside the continued recovery we are seeing in tourism demand and in driver supply. So that also supports the Mobility business growth.

Now looking ahead, there's still a lot of potential to grow the total addressable market given, one, the sizable online population in the region and yet if you look at our core services, that is still largely underpenetrated. The fundamentals also are strong with a large expanding and growing population and rising middle class and one that is rapidly digitalizing. Today, Grab only sells 1 in 20 people every month. So this means there's still plenty of room for us to grow.

Now how do we think about growing MTUs, we actually have a multipronged approach to widen our reach across the region. First, we are evolving our products and services to appeal to a broader range of users. Second, we're penetrating into cities, and I talked about it just now with whether it's Saver, whether it's GrabShare, things like that. Second, we're also penetrating in the cities with new services, and that actually took a backseat during the pandemic. So this is especially important for outside of the capital cities. So what we call OTC expansion.

The third is we're also increasing our product offerings within the Financial Services segment that Alex talked about to serve our ecosystem partners. So when we talk about increasing demand, we don't really think about for -- especially increasing demand for affordable services. It's not just about lowering prices, but growing in a category that we also grow the bottom line. So how do we do that? Innovation is absolutely key to do that. So we innovate using our technology to lower the cost to serve so that we can actually take that cost savings and pass it on to the customer.

So Grab continues to have plenty of growth opportunities we're in pole position to capture the large total addressable market given the power of our ecosystem and the scale. And we will execute this multipronged approach I just talked about to grow their user base.

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Thanks, Anthony. Piyush, why don't I take the second question on the financial services. Just to recap the strategy for the payments business is to push down the fixed costs while growing volume. And actually, there's some evidence in the numbers over the last couple of quarters that we've been able to achieve that. So this quarter, the cost for GrabFin came down 10% quarter-on-quarter, and then that built on an 11% reduction in the prior quarter. So you can see that we are driving down those fixed costs even while the financial transaction volumes are going up.

Net-net, if you look across the Banks and GrabFin together, about 50% of the costs are fixed at this time and about 50% of variable supporting, for example, the 45% year-on-year increase in loan disbursements that we've had in this quarter. Now the proportion of fixed costs actually is going down. So a lot of those quarter-on-quarter reductions that I just quoted were taken out of that fixed cost piece. So we are getting more operating leverage, and that's a key part of the strategy. Maybe, Peter, you want to comment on the profitability profile.

Peter Oey - *Grab Holdings Limited - CFO*

Yes. So Piyush, the way to think about it is -- as you can tell, we made some good strides from the first quarter of our Financial Services segment in terms of profitability. Now we've got a couple of Bank launches coming up in the second half of this year, one in Malaysia, one in Indonesia. And as we launch those, obviously, there will be some costs related to that as we launch -- as we go to market for those 2 countries.

And what you'll see is that the peak of the financial services cost structure at Q2, Q3 levels. So overall, what we expect is relatively a flattish levels of EBITDA loss. You've got the puts and takes between our GrabFin business and our Digibank business, but we won't see losses worsening post those 2 investment quarters that we have in terms of our Digibank launching, while the GrabFin cost continues to come down.

Operator

Our next question comes from Mark Mahaney with Evercore.

Mark Stephen F. Mahaney - *Evercore Inc. - Senior MD & Head of Internet Research of Evercore ISI*

I just want to ask one question about the incentives. This disclosure you provide is great about the incentives per segment, and they've -- there's a very clear pattern of them coming down as a percentage of GMV. I assume that will continue to be the case. Is there a natural steady-state level that you think that those overall incentives can come down to? Is there one of the segments that indicates where incentives can kind of based out at, just help us think about how low can they go?

Peter Oey - *Grab Holdings Limited - CFO*

Mark, this is Peter. Let me take that one. Yes, incentive has been coming down, especially in Deliveries, we saw another improvement of roughly about 70 bps from a quarter-on-quarter as a percentage of GMV. I think where we are today, there's still opportunities in the Deliveries for us to continue to optimize. Now we're balancing that also, Mark, as we think about the marketplace and also looking at potential opportunities where we can also to gain and improve our category position.

So we're keeping a close eye on our continuing leadership as well as we're continuing to also stimulate further growth in our Deliveries business, but we are committed in getting to that 3% margin that we've stated plus that we've stated multiple times now. So it's that delicate balance that we'll continue to manage.

Mobility, what we did see is a little bit of uptick in terms of incentives, about 60 bps on a quarter-on-quarter, and we reinvested that into the marketplace. We are seeing very strong demand in the Mobility at the moment. And Mobility, if looking at the past 3 quarters, if you look at from Q2 to where we are past 4 quarters, we've been hovering around that 7% as incentive as a percentage of GMV. I think we're comfortable so far on what we're seeing in terms of that level of incentives.

Again, the balancing act in the marketplace. Again, the number of drivers that we have on the road and the demand that we're seeing, there will be time to time where we might flex a little bit more in incentives just to make sure that the driver supply can meet the healthy consumer experience with our demand. But what you're seeing today is in Deliveries, further opportunities and Mobility will continue to hover around the 7% mark.

Operator

Our next question comes from Sachin Salgaonkar with Bank of America.

Sachin Shrikant Salgaonkar - *BofA Securities, Research Division - MD in Equity Research & Head of Asia Telecom*

Congrats for a good set of numbers. I have a couple of questions. One would be great to understand from you the competitive landscape, both in Mobility and Delivery and how that has changed in the last few months?

And second, I'll perhaps go back to the guidance. Given the fact that your run rate at GMV on Delivery and Mobility appears to be good. And even if you assume your continuing run rate at the loss reduction continues, then one gets a clear sense that your guidance is conservative, especially the breakeven at 4Q. And you did mention the fact that when you give guidance, you talked about conservative, but just wanted to understand any particular reasons you guys are looking at it? And maybe a related question to that is any range of investment you guys could provide us from investments in Digibank for this year and next year?

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Thanks, Sachin. This is Alex. Let me take the first question. Our primary focus, frankly, is on our consumers rather than our competitors. You've heard a consistent theme in all the comments this evening about striving for greater affordability even while we improve reliability. We've seen that, that has worked in the first quarter and has allowed us to grow our competitive physician leadership even further in the quarter. Therefore, we're going to double down on that. We're going to do more of that. Our competitors don't have the scale that we have, and therefore, that operating leverage that we get out of the scale allows us to be affordable and more profitable.

And so at the same time, we've been able to reduce incentives and improve margins in the quarter. So that's our key focus. It's true that the competitive spending on incentives, which was largely funded by shareholders' money in the past is definitely drying up, which means that the environment continues to be conducive for that push on incentive. We've been able to take 500 basis points out of the Deliveries incentives year-on-year. So that's obviously a conducive environment to be that rapid in the improvement.

But like I said, our primary incentive -- our primary focus has been and will continue to be on providing great service with great reliability to consumers at affordable prices. In that way, that will allow us to continue to grow the addressable market in Southeast Asia. We're still at only 1 in 20 of the addressable market in Southeast Asia. So that's our key focus rather taking share of competitors, our key focus is growing the market through better affordability and better service.

Peter Oey - *Grab Holdings Limited - CFO*

Sachin, I'll take the next one. I think your question was around our EBITDA guidance, I think you're questioning the conservativeness of the guidance. I think, yes, there are conservativeness in the guidance, and we believe that's a philosophy that we take as a management team, it's important that we feel that we give the business and our leaders also the flexibility to make sure that our marketplace is healthy. We also gives us the ability also to make sure that when we need extra supply of drivers for an example, we're able to tap into that and also to offer support to our merchants and also consumers.

So again, the healthy marketplace is critical and our market leadership tied to that marketplace is equally as important. So we control those levers. You've seen that quarter-on-quarter now 5 consecutive quarters of able to demonstrate our levers within our reach, and we know we're trying to pull, but our delivery and our margins is always in sight where we want to achieve. So I give you -- I hope that gives you a bit of a color in terms of how we think about it and how we're going forward. Now it's early days. We still -- this is a first quarter earnings report. So we still have 3 more quarters to do. But so far, we're feeling pretty good about the business.

Your third question, I think it was around Digibank. Look, we don't comment in terms of the level of investment that we're making. Again, there is a set of -- that we work with -- because it's a joint venture with SingTel. So we balance that in terms of what's needed. But what I can assure you is that we're very careful. We're very cautious in terms of how we deploy capital for our digital banks.

As Alex mentioned earlier, we have a very clear target to breakeven over the next 3 years for our Digibank business. We are launching over the next 6 months, we will allocate capital where it's required with our joint venture partner but again, it's very important that every dollar that we deploy against the bank itself that there is a set of returns that we're looking to get back over the next future period. And that's how we're looking at our Digibank investments.

Operator

Our next question comes from Navin Killa with UBS.

Navin Killa - *UBS Investment Bank, Research Division - Analyst*

I actually had 3 questions. If I look at your take rates for both Delivery and Mobility, they seem to have declined quarter-on-quarter. I just wanted to understand, are there any particular kind of strategic initiatives that you took? Or how should we look at this going forward?

Secondly, on the Delivery business, medium-term margin target of 3%, you're obviously tracking well ahead of that. I guess my question is, how do you look at that number itself? Do you think there is upside to that? And again the reason why I'm asking this is because when I look at Mobility, when your margin kind of went above the target levels, we have seen you kind of reinvest back to drive growth. Would it be fair to assume that, that's how you'll probably take the Delivery business as well? And the last question I had, if you could share with us your loan book for the Financial Services?

Peter Oey - *Grab Holdings Limited - CFO*

Okay. I mean let me take all those 3 questions. Let me take the first one around take rates. I think you mentioned Mobility, Deliveries.

Actually, if you look at the numbers, both on the commission rates which is as a -- this is pre-revenue from your GMV all the way to gross billings. Our deliveries was relatively flat. I mean it's 30 bps down, but really, it was 23.8% in the fourth quarter. It's roughly 23.5% in the first quarter of this year.

Mobility was actually flat, 23.4% on a quarter-on-quarter basis. If you look at the net take rate from a revenue standpoint, actually Deliveries was slightly -- it was 40 bps up and Mobility was about 50 bps down. And then part of that is as you look at in Mobility as we were reinvesting back into the marketplace. Again, we had very strong demand in the first quarter, and we wanted to make sure that as part of the mix, the healthy marketplace, especially for consumer experience, we were looking to -- we reinvested back into our driver supply.

Again, that will move from time to time as we look at just the condition of the marketplace and also as we continue to make sure our category position leadership continues to be very strong.

Second question, around Deliveries, our margin of 3%. If you look at some of our core markets today, actually, the majority of our core markets today, they're actually tracking above 3% from a margin side. And that gives us strong confidence, that gives us a lot of playbook that we can deploy also in some of the other couple of countries that are inching closer also towards the 3%. So as a business overall, we're committed to that 3%, again, at the same time also just similar to Mobility, it will be time to time where we may redeploy some of those margins into the marketplace, whether it's on the merchant side, the driver side or even the consumer side also. Again, to make sure it's a balanced marketplace.

So far in the first quarter, we didn't need to do that. We managed -- we got an all-time high in terms of the Delivery margin there. But overall, stepping back, the 3% plus that we said multiple times now, we're very committed, and we'll balance that along the way in the future quarters.

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Maybe just to add on to what Peter was saying. I think when we talk about plus, strategically, we're thinking about the advertising upside. The advertising business is still very small, still early days. But you can see year-on-year the way we've managed to drive much higher margin. So generating in this quarter now $8 million. So still small, but that's an $8 million contribution to the bottom line. So when we think about growing the Deliveries business and reinvesting into growth. One of the reasons for that is we want to have a good scale advertising platform with sufficient reach to really grow the very profitable advertising business in the future.

Peter Oey - *Grab Holdings Limited - CFO*

Thanks, Alex. Yes. And Navin, on your last question about the [loan] (corrected by the company after the call) book, we don't disclose that number. But you heard from the prepared remarks that our loan disbursements was up 45% year-on-year. And what's key here is our credit cost is at a very healthy levels. And also our NPLs is also at a very low level also. So we're balancing the risk as well as also making sure we're feeding into our ecosystem for our lending business.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Peter for any closing remarks.

Peter Oey - *Grab Holdings Limited - CFO*

Thank you, everyone, for taking the time to join our call today. We appreciate everyone's time. And if you have any questions, please feel free to reach out to our Investor Relations team or visit our Investor Relations website. Thank you. We'll speak again in Q2. Thank you.

Operator

This concludes Grab's First quarter 2023 earnings conference Call. Thank you for your participation. You may now disconnect your lines.
