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GRAB.OQ - Q1 2022 Grab Holdings Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for joining us today. My name is Michelle, and I will be your conference operator for this session. Welcome to Grab's First Quarter 2022 Earnings Presentation. (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 2022 Earnings Presentation. I'm Vivian Tong, Head of U.S. Investor Relations at Grab, and joining me today are Anthony Tan, Chief Executive Officer; Peter Oey, Chief Financial Officer; Ming Maa, President; and Alex Hungate, Chief Operating Officer.

During the call today, Anthony will discuss our key business updates and Peter will share details of our first quarter 2022 financial results. Following prepared remarks, we will open the call to questions where Anthony, Peter, Ming and Alex will provide responses for the Q&A.

As a reminder, before we begin, today's discussion contains forward-looking statements about the company's future business and financial performance. These comments are based on our predictions and expectations as of today. Actual events and results could differ materially due to a number of risks and uncertainties, including those mentioned in our Form F-1 registration statement and other filings with the SEC.

The discussion today also contains operating metrics and non-IFRS financial measures. The comparable IFRS financial measures are included in this quarter's earnings materials. 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 2022 financial review, which can be found on our IR website. Should you have any questions after this presentation, please reach out to investor.relations@grab.com.

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

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

Thank you, everyone, for joining us today. I'm pleased to report a strong set of results in the first quarter. We outperformed our GMV and TPV guidance for deliveries, mobility and financial services segments while improving our group level and delivery segment margins at the same time.

Our results are a testament to the resilience of Southeast Asia's economy. The region's governments have been more cautious in lifting COVID restrictions compared to other parts of the world. But in March, we saw a shift in some countries to a post-pandemic footing, where travel restrictions and capacity limits eased significantly. We are optimistic that our business will continue to strengthen as more countries pivot to living with COVID-19.

Looking ahead, we are laser-focused on meeting our profitability targets and growing sustainably. We have 3 main levers to achieve this.

First, we're driving towards profitability through disciplined cost management. We have started optimizing our fixed cost base and are disciplined with our capital by managing our spend closely.

Second, we'll continue to focus on winning the hearts and minds of more users across Southeast Asia. We will leverage technology, partnerships and our superapp strategy to grow our user base in an efficient manner that leads to greater consumer engagement and retention.

Last, we will continue to position our core segments for recovery and growth in order to capture the vast opportunities across our core segments. By doing this, we aim to build a resilient, future-proof business that delivers long-term value to our shareholders. With this backdrop, let us dive into our first quarter performance.

In the first quarter, our mobility segment rebounded with GMV up 9% quarter-on-quarter despite the Omicron overhang in the first 2 months of the year. We saw signs of recovery coming out of the quarter as countries like Singapore, Indonesia and the Philippines loosened COVID-related travel restrictions in March. In the period of February to April, our mobility GMV increased 32%. Airport rides, which have higher margin and higher order values, rose to 6% of GMV, the highest level since the start of the pandemic.

On the supply side, in the first quarter, we reached the highest number of active drivers since the second quarter of 2020. We increased our average monthly active drivers by 220,000 from the third quarter 2021 to the first quarter of 2022. While these are positive indications that our efforts to restore driver supply are bearing fruit, our active driver base over March 2022, the majority of whom do both deliveries and mobility jobs, was 76% of the December 2019 level. This indicates an existing gap when it comes to meeting mobility demand that is rebounding sharply.

I will take some time to address this gap in our driver supply. In 2021, COVID-19 variants, from Delta to Omicron, caused many countries across Southeast Asia to loosen and tighten restrictions in fits and starts. This impacted our active driver supply as some drivers temporarily left capital cities during the lockdowns to return to their hometowns, while others moved on to odd jobs in other industries.

In the fourth and first quarters, we've had to acquire more drivers to meet the increased demand rapidly coming back online. To rebuild our driver supply, we have 3 main strategies.

First, we're running targeted campaigns in each market to reactivate dormant drivers.

Second, we are widening our acquisition funnel and making it more efficient. For example, we have ramped up assisted onboarding in some countries to complement our self-serve model to increase driver conversion.

Finally, we continuously innovate on our superapp platform so we are the best platform for drivers to earn an income. For example, we launched an enhanced shifts feature for Singapore drivers that led to higher driver earnings and productivity for them in selected zones while meeting demand in supply crunch areas.

We also launched cross-vertical batching in a few cities to allow our drivers to do back-to-back jobs across different verticals, improving their earnings by reducing idle time. In the first quarter, average driver earnings per hour increased by around 9% year-on-year while utilization rates improved. Of course, reduction in driver idle time also helps improve our overall cost to serve.

Looking ahead, we are focused on rebuilding our driver base to capture the strong mobility demand recovery. We expect the mobility supply to stabilize in the second half of the year with driver incentives as a percentage of GMV tapering in that period. Separately, we are closely monitoring the impact of fuel inflation on our drivers' earnings. We'll continue to look for ways to support them through surcharges, fuel discounts and fare adjustments to mitigate its impact on our driver supply.

Moving on to deliveries. Deliveries continued to register another quarter of strong GMV and revenue growth on the back of food and grocery strength as well as contributions from Jaya Grocer. We managed to grow both our top line and improve our unit economics quarter-on-quarter. This gives us confidence in our sustainable growth strategy for deliveries.

In the first quarter, we focused on forging strong partnerships with local merchants to give users more reasons to transact with Grab. We believe this helps us form a natural moat while improving user retention on our deliveries platform. Over the first quarter, the number of active merchants rose 34% year-on-year, while average earnings per active merchant increased 9% year-on-year.

For groceries, we began to integrate Jaya Grocer stores onto our groceries marketplace in Malaysia. We plan for the integration to be fully completed in the second half of the year. Meanwhile, GrabPay has been integrated in all Jaya Grocer stores in the quarter. In the first quarter, Jaya Grocer became the largest GrabPay merchant in the country by TPV, all within a super-quick 2-month period post-acquisition.

Looking ahead, we are focused on improving our unit economics at a faster clip by tapering our incentives and driving organic growth. We will do this by ensuring users have the best product experience and the widest merchant selection on Grab. We also plan to sustainably grow our deliveries business in underpenetrated outer cities and towns in 5 of our 8 markets to meet strong customer demand in those areas.

For financial services, we continue to see strong momentum in payments, and we made great progress in lending. In the quarter, TPV of our Buy Now Pay Later product grew 5x between Q1 2021 and Q1 2022. Overall loans disbursed, which includes Buy Now Pay Later loans, grew 3x in the same period. We achieved this while keeping our NPL ratio steady at low single digits. Looking ahead, we plan to expand the Buy Now Pay Later product into more markets and deepen lending penetration within our ecosystem. This will allow us to grow financial services to meet the needs of an underserved market while growing sustainably.

In the quarter, OVO continued to execute on its open ecosystem strategy. OVO did so by forging new large partnerships, including one the global short-form video sharing app and launching its first recurring payment partnership with a global subscription streaming service.

Finally, I'm also excited about our digital bank opportunities. Our digital banking joint venture with Singtel, also known as GXS Bank, and a consortium of partners was selected to receive a full digital bank license in Malaysia in April. There were 29 total applicants, and 3 full bank licenses were granted. We were 1 of the 3 that passed the high bar set by Malaysia's Central Bank. We are tremendously grateful for this opportunity to serve Malaysians, where 1 in 2 are currently considered underbanked or unbanked.

Winning the Malaysia digital bank license allows us to create a regional digital bank footprint in a cost-efficient manner. We plan to leverage the same technology stack for our digital banks in Singapore and Malaysia and our Indonesia bank investment in order to sustainably scale access to financial services across the region. We also aim to launch a Singapore digital bank, currently in an internal pilot, in the second half of the year.

A quick point on enterprise and new initiatives. GMV and revenues grew strongly year-over-year, driven by advertising contributions. In the quarter, our GrabAds advertiser base jumped 7x compared to the same period a year ago as we continue to onboard Grab merchants onto our self-serve ads platform to provide them search and display advertising options for them to grow their sales in our app. This is another example of our superapp strategy in motion.

Aside from being a superapp for consumers, we are also a superapp for merchants, where we cross-sell services to them and create a virtuous cycle that also benefits our merchant partners and allows them to perform well. When they perform well, so do we. And through GrabAds, we give them the tools to grow their businesses.

To conclude, we will continue to double down on our superapp strategy. With a laser focus on growing sustainably so we can win many more hearts in Southeast Asia and drive toward our profitability targets.

I'll now turn the call over to Peter to deliver a review of the financials.

Peter Oey - *Grab Holdings Limited - CFO*

Thanks, Anthony. We had a strong start to the year with our core segment's first quarter 2022 GMV and TPV outperforming the high end of our guidance range. GMV grew 32% year-over-year to $4.8 billion, driven by both higher average spend per user and continued growth in our MTUs year-on-year.

For our segments' GMV and TPV performance, we saw strong growth in our delivery segment with GMV growing 50% year-on-year to reach $2.6 billion, while financial services TPV scaled to $3.6 billion in the first quarter. Mobility GMV was $834 million in the first quarter and grew by 3% year-on-year and 9% over the fourth quarter due to Omicron impact over the first 2 months of the year.

Looking ahead, we are optimistic of a gradual mobility recovery, and we will continue to spend efficiently and judiciously to grow our driver base to support demand coming back online. As Anthony mentioned, we expect the mobility supply to stabilize in the second half of the year with driver incentives as a percentage of GMV tapering in that period.

Overall, across all our segments, we are seeing improvement in commission rates. Year-on-year, deliveries commissions are up from 18.2% to 19.9%. Mobility commissions up from 22.6% to 23.4%. And financial services commissions up from 2.1% to 2.5%. The year-on-year improvement in deliveries and mobility commission rates was driven by product and country mix. Financial services commissions also improved on the back of higher contributions from our lending business.

Revenues on an IFRS basis for the first quarter grew by 6% year-on-year to $228 million and grew by 87% quarter-on-quarter. Year-on-year growth in revenues was driven by a strong pickup in revenue in the delivery segment, which includes revenue contribution from Jaya Grocer and continued growth in our financial services and enterprise revenues. These revenue growth drivers more than offset the year-on-year decline in revenues from our Mobility segment.

Segment adjusted EBITDA margins declined year-on-year from 1% in the first quarter of 2021 to negative 1.6% in the first quarter of 2022. Our mobility segment adjusted EBITDA declined to $82 million in the first quarter of 2022 from $115 million in the same period last year. Delivery segment adjusted EBITDA declined to $56 million loss in the first quarter of 2022 from a $4 million loss in the same period last year. And our financial services segment adjusted EBITDA declined to $102 million loss from $78 million loss from the same period last year.

As we mentioned in the prior quarter, we made a decision to boost our active driver supply base and to capture the strong underlying demand growth from reopenings, which caused our segment adjusted EBITDA margins to decline on a year-over-year basis. However, I do want to also point out that we've managed to improve our segment adjusted EBITDA margins quarter-on-quarter by around 100 basis points as we continue to drive greater discipline in managing our incentives.

For example, our delivery segment adjusted EBITDA margins improved quarter-on-quarter from negative 3.5% to negative 2.2%, a 130 basis point improvement. Our core food delivery segment EBITDA margins also saw improvements quarter-on-quarter, from negative 2.8% to negative 1.7%, a 110 basis points improvement. We also saw our financial services segment EBITDA margins as a percentage of TPV improve quarter-on-quarter from negative 3.2% to negative 2.8%, a 40 basis point improvement. Looking ahead, we will continue to remain focused on growing sustainably by allocating our capital efficiently and tapering down our incentive spend.

Our group adjusted EBITDA margins followed a similar trend as we ended the first quarter with an adjusted EBITDA margin of negative 6%, a decline from the prior year period of negative 3.1%, but an improvement of 80 basis points from the fourth quarter of 2021.

Our regional corporate costs for the first quarter of 2022 increased to $212 million from $146 million last year but remained stable at roughly 4% as a proportion of our GMV. The regional cost increase was primarily driven by investments in product development and cloud infrastructure along with increasing our talent pool as well as compliance and other ancillary expenses related to being a newly listed public company.

I want to assure you that, as Anthony mentioned, we are very focused on our overall cost management and on driving greater internal efficiencies. We will continue to optimize our fixed cost base and be disciplined in hiring and other expenses as we focus on growing our business sustainably.

IFRS loss for the first quarter was $435 million, representing an improvement from a loss of $666 million in the prior year period. This is primarily due to the elimination of non-cash interest expense of Grab's convertible redeemable preference shares which was no longer incurred when we became a public company.

Turning to our balance sheet and liquidity position, which continues to be strong. We ended the first quarter with $8.2 billion of cash liquidity, including our $2 billion Term Loan B facility. Our net cash liquidity was $6 billion as of the end of the first quarter. Our cash liquidity declined by $754 million from the end of the fourth quarter, mainly due to net cash outflow from operating activities and the acquisition of Jaya Grocer. We will maintain a disciplined stance in how we allocate and deploy our capital. The strength of our balance sheet is not something that we take for granted.

As we look ahead for the second quarter and rest of the year, in the second quarter, we expect to see deliveries GMV of $2.55 billion to $2.65 billion, mobility GMV of $950 million to $1 billion and financial services TPV of $3.5 billion to $3.6 billion.

Our path to profitability plans remain on track and is a key focus for our management team. In the second quarter, we expect to see continued improvement in the mobility business with COVID-related travel restrictions easing across the region. For mobility, we expect margins to recover back towards our long-term target of 12% of GMV as our active driver base and mobility demand rebounds. We also expect our mobility supply to stabilize in the second half of 2022 and for mobility driver incentives as a percentage of GMV to taper in that period.

In deliveries, we expect demand to remain firm, but saw some seasonal impact on demand levels given the observation of Ramadan, a month of fasting and prayer for Muslims in April, impacting primarily Indonesia, Singapore and Malaysia. For deliveries, we reiterate our expectations for the segment to reach segment adjusted EBITDA breakeven by the end of 2023, with core food delivery breakeven by the first half of 2023.

We expect our long-term segment adjusted EBITDA margin as a percentage of GMV to come in above 3%. Now this is higher than the 3% guide that we presented in the prior quarter. We have achieved margins higher than 3% in some of our markets in the past, and believe we can adapt the learnings from those markets to optimize our overall segment adjusted EBITDA margins. I do also want to note that our long-term deliveries margin excludes contributions from advertising, which is currently captured in our Enterprise and New Initiatives segment.

For financial services, we will also continue to drive greater adoption of our wallet and continue to expand our Buy Now Pay Later product. Looking at the full year, we expect group GMV in fiscal year 2022 to grow between 30% to 35% year-on-year, and we expect to generate revenue of approximately $1.2 billion to $1.3 billion. Our revenue guidance includes contributions from Jaya Grocer, along with our expectations to taper our incentive spend. We expect our group revenues, excluding Jaya, to grow by no less than 50% in fiscal year 2022.

In conclusion, we are pleased with our performance in the first quarter which sets us up nicely to continue executing for the rest of the year. We'll continue to focus on optimizing our cost structure, exercising capital discipline and tapering our incentive spend sequentially as we push ahead on our path to profitability.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joining us for the question-and-answer session will be Anthony Tan, Chief Executive Officer; Peter Oey, Chief Financial Officer; Ming Maa, President; and Alex Hungate, Chief Operating Officer. (Operator Instructions)

Our first question comes from the line of Alicia Yap at Citigroup.

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

I have a question on the delivery business. Just wondering, for 2Q guidance itself, if we exclude Jaya Grocer, what kind of growth rate that we should be expecting on the organic growth?

And then in terms of the -- if management can also comment if there's any change of the competitive landscape for the delivery business, especially any country that you are seeing, facing more aggressive subsidy by the competitors? Or any areas that kind of stand out in the recent quarter that we should be paying more attention to? Any change on the landscape itself?

Peter Oey - *Grab Holdings Limited - CFO*

Alicia, this is Peter, and let me take the first one, and then Anthony will take the second one.

So on the Q2 deliveries GMV guidance, look, what I'll say is we don't break out the Jaya piece. We don't break out normally all the different sub verticals within a segment of our business.

But if you look at delivery, just stepping back, we're still growing and very stable also. We did see some seasonal impacts in the first quarter as we came off a strong fourth quarter, but deliveries overall is very stable. It grew at 5%, as you saw from a quarter-on-quarter basis. And if you look at from February to March, it grew 11% from our business; and also from December to March, at 7%. So we're seeing good momentum despite the very strong coming back -- comeback of mobility in our business, and we're going to see continued growth in the deliveries business overall.

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

Thanks, Alicia, I'll take the competition question, especially with regards to deliveries. In this quarter, actually, we gained share in deliveries against regional food delivery players in all of our markets and improved our unit economics.

So we expect that total incentives as a percentage of GMV to continue to taper as we look ahead. So our focus, our laser focus on driving organic growth through really better user experience. And of course, what the users really appreciate is a wider selection. And we believe we have one of the widest, if not the widest, out there.

In terms of when we think about competition, -- when we think about how do we out-serve our users and partners? And we do this by capturing the higher basket size user demand across different modalities, whether it's ready-to-eat food, whether it's at a restaurant or self pickup or other forms. And as a result, we actually drive more business for our merchant and driver partners. Hence, many of these partners actually choose us as their main platform. And by doing this, it means that we bring the largest merchant discovery and more user delight.

So all in all, there's always going to be competition in the market. What is key for us is to enhance our right to win by capitalizing on the moats of our business. And we'll just keep executing effectively, heads down, as we taper down our incentive spend.

Operator

Our next question comes from Navin Killa with UBS.

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

I actually had 2 questions. First of all, on the deliveries business, I just wanted to understand, I guess, broad breakdown between food, groceries and parcels. And even if we can't have any specific numbers, I guess, overall, how the mix will evolve, and what that could mean for commission rates directionally.

And I guess the reason for this question is because, I would imagine, I mean, as groceries and all get bigger, the commission rates potentially could decline, but you have obviously managed to grow that. So I wanted to understand that a little bit more.

And then secondly, in terms of cash, you obviously mentioned the strong balance sheet and the fact that you don't obviously take it easy. I guess, between the cash burn in the business, plus, I guess, some of the inorganic acquisitions that you need to do to expand, I guess, either your physical business or the financial business. How do we look at the balance between those various kind of sources of cash or sources of utilization of cash?

Peter Oey - *Grab Holdings Limited - CFO*

Sure, yes. So let me address the first one around our deliveries mix. We don't break out the specific percentages between food, our Express business or our Supermarket, Mart business. But I would say is the food business still comprises the majority of our delivery segment itself. At the same time, also, we are seeing good growth in terms of our Mart and Supermarket. If you look at the -- and just to give some numbers around there, we saw a growth of over 150% when it comes to Mart and Supermarket on a year-on-year basis, and continues to grow double digit on a quarter-on-quarter basis.

It's still very early days for us when it comes to Mart and Supermarket. We're optimistic. And also with the integration of Jaya, we're learning a lot, and we're applying a lot of those learnings to our Mart and Supermarket infrastructure also at the same time.

In terms of how that ties to commission rates, commission rate continues to improve. As you heard earlier, deliveries was up 190 basis points. If you look at it on a quarter-on-quarter basis, it was 170 basis points. Even if we extract the Jaya piece out, we continue to see commission rates very strong at the same time. So it's -- if you look at from a mix standpoint, we look at our portfolios at -- from a same lens perspective, and that's to improve our unit economics.

On the cash piece, you mentioned that the financial services piece was inorganic. We actually see our financial services and digital bank as organic businesses. And it's part and parcel of our ecosystem, it's part and parcel of our superapp strategy. And it's important that we allocate capital there also as part of that.

Now if you look at just in terms of how we think about M&A activities, we have a very high bar when it comes to M&A activities, 2 critical lens that we'll look at. One is, does it improve our unit economics of our business? Does it improve the path to profitability of our business? And it's a very high bar for us to look at.

Now we're very focused on organic growth. We'll continue to be very focused on all the segments of our business. Mobility is coming back very strongly, delivery continues to be very stable, Financial services continues to grow also. And those organic growth, we'll allocate the right capital to it. But also at the same time, we're also keeping an eye on our margins as we want to make sure that our margins continue to improve sequentially.

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

If I can -- sorry, just a follow up. I guess what I meant by inorganic in financial services side was not necessarily, I guess, the cash that we need to spend to grow the digi-banks and all, but more acquisitions that, again, have been kind of discussed in the press. So it's more a question of what goes organically into growing the businesses versus the acquisitions that you might have to do to scale up those businesses.

Ming-Hokng Maa - *Grab Holdings Limited - President*

Yes, Navin, this is Ming. First of all, I would just point out that our general policy is to avoid commenting on any market rumors out there. But I would take it up to -- if you really think about the inorganic opportunities, there's really 2 points I would highlight.

As Peter mentioned, we take a very conservative stance around M&A. The bar is very high. Cash is king for us. So we are only looking at opportunities that are very compelling to us.

Now what would those look like? Generally, those will look like situations where we can either accelerate our path to profitability or meaningfully improve the unit economics within our marketplace and within our ecosystem. But obviously, absent those 2 criteria, we're going to be very, very disciplined around M&A.

Operator

Our next question comes from Mark Mahaney with Evercore.

Mark Stephen F. Mahaney - *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Internet Research*

If I could just ask a question, please, on the mobility segment. Could you talk about rider trends quantitatively or qualitatively, in terms of trip frequency, trip fare amount, number of users; relative to what you experienced in pre-COVID back in 2019?

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

Thanks so much. I really appreciate the question. With regards to mobility, specifically, I'll talk more about in Q1. We actually achieved this mobility growth even despite this impact of Omicron in the first 2 months. We see clear evidence of a gradual recovery coming out of Q1 as much of these restrictions, these Omicron restrictions, are lifted in March.

So Mark, to us, we just reported that mobility GMV is up 9% Q-on-Q. Now exiting the quarter, we actually see demand recovery with mobility GMV up by 32% from Feb to April. So we're pretty pleased there. Even then, I have to admit we still have plenty of headroom to grow. Mobility in March '22 is only 57% of pre-COVID levels. So we actually expect the mobility segment to stabilize in H2, and with regard to driver incentives as a percentage of GMV to taper in that same time period. And with that being said, we expect mobility segment adjusted EBITDA margin to recover back to 12%.

So the teams know, we are laser-focused on mobility supply to make sure we can capture this demand that's coming back quickly online. And I'm sure, if you come across Southeast Asia, we see it, Alex and I, our COO, have traveled across 13 cities in over the past 14, 15 weeks, and we've seen demand coming back strongly. So we are going to just execute strongly on that front to make sure we take advantage of this mobility recovery in a very disciplined way.

Operator

Our next question comes from Pang Vitt with Goldman Sachs.

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

Another question around mobility business. How has the rising inflation and fuel costs impact your business overall? Post your fare raise in Vietnam and fuel surcharge in Singapore, is there any impact to demand?

And also, together with the mobility business, if you can help us comment around the competitive dynamics here, the landscape, that would be very helpful.

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

Sure. Let me take the question on inflation. We are actually closely monitoring the situation. But so far, we've actually not seen headwinds to demand from high inflation rates. What is actually more evident and observable is actually the higher fuel prices. We've slightly increased fares in Singapore and Vietnam, but have yet to see a material impact in mobility demand. In fact, we're seeing demand still growing faster than supply, even. So generally quite positive with mobility demand. From January to March as well, as just now we shared, our mobility GMV is growing as we bring down partner and consumer incentive spend in the same time period.

So we believe it's still too early to comment on the change in any structural change in consumer behavior due to any of these inflationary pressures. But we remain very confident and -- that the resilience of our everyday services, whether it's mobility, whether it's deliveries in country, in this new endemic phase.

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

And on the competitive dynamics, the landscape.

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

I'll just add on the -- Singapore is a surcharge and not a fare increase, so just to be clear.

On competition, if I -- if you don't mind, I'll just jump in again. Look, the reality is competition is not new to us. We've shown time and again that we can out-execute our competition in a more efficient way because of the cost benefits from our superapp ecosystem. So we've actually remained -- or maintained our leadership category position in mobility and deliveries in the quarter, according to Euromonitor. And notably, we actually increased our lead relative to the next-largest regional food delivery competitor, so while we maintained leadership in mobility.

So we can only do this because of the leadership that has led to us being able to benefit from reducing our total group incentive spend compared to Q4. That means we are actually being more efficient with our incentive spend compared to our peers while the business continues to grow. So looking ahead, we actually see total incentives as a percentage of GMV come down.

Now as -- an example of this, what we see is, through cross-vertical batching for our drivers because of our superapp strategy, we actually see better supply-side unit economics because drivers can earn more while we are actually improving our incentives. We've seen, whether it's earnings, average earnings per transit hour, that's increased 9% year-on-year, we've seen utilization rates also improve in the same period, even though we've actually tapered down incentives as a percentage of GMV.

So we believe it's about building better experiences for our users and partners, and that's why we're just going to keep doubling down on the superapp moat and reducing our cost to serve.

Peter Oey - *Grab Holdings Limited - CFO*

I'll just add that, that in terms of incentives, that we're seeing is the competitors overall are tapering down on incentives in mobility. And it's a great sign because the market is rationalizing. Also, it's been more constructive at the same time. And that's also helpful for us. And that's something that we're keeping a very close eye on as we continue to make sure our supply base also grows to meet the -- all that demand. Hope that's helpful.

Operator

Our next question comes from Ranjan Sharma with JPMorgan.

Ranjan Sharma - *JPMorgan Chase & Co, Research Division - Analyst*

Two questions from my side. Firstly, if you can just give more color on the revenue guidance of $1.2 billion to $1.3 billion. In that guidance, how much are you expecting incentives to come down versus last year?

The second question is if you can also talk us through the changes in the cost that you have seen. Because I see the cost of revenues up 30%, G&A expenses up 90% and R&D up 60%. So what's driving these cost numbers up?

Peter Oey - *Grab Holdings Limited - CFO*

So on the revenue guidance part, the revenue guidance, which we're giving up for the first time, of $1.2 billion to $1.3 billion, it's largely driven by a few things. Let me break it out for you.

One is it's driven by the top line growth, definitely. We're expecting a top line GMV growth of 30% to 35% for the fiscal year. It's also, we're seeing some -- as you can tell from the growth of commission rates that we've seen from the prior period. The other piece is it includes also the contribution from Jaya. And also, the fourth component is it's a reduction of the incentives. Now we don't give out all the different components of that, but you can get a good feel in terms of where that's coming in. The other data point I would give about is -- that will be helpful is we expect our group revenues, excluding Jaya, to grow no less than 50% for fiscal year 2022.

In terms of cost, your other question. Our cost structure overall came in, from a percentage of GMV, and I'm focusing here on our regional cost structure, roughly about 4% in terms of costs. Now it's something that we are watching very closely. And the cost increase was primarily driven by investments in product development. We also invested in our cloud infrastructure, along with our increasing talent pool as well as some compliance and ancillary expenses being a newly listed public company.

Looking ahead, though, we are very focused on our overall cost management. And there's a lot of initiatives that's up and running actively all around the world for us in driving greater internal efficiencies. And we see regional costs as a percentage of GMV coming down this year. And we're already making some good early starts here in the second quarter, and we are working very hard in all fronts here to make sure that we're optimized every penny and every dollar in every department.

Operator

Our next question comes from Venugopal Garre with Bernstein.

Venugopal Garre - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So a couple of questions. First on the delivery segment. Now after a 50% sort of a growth in the first quarter in GMV, your midpoint of guidance, you're looking at close to about 23% Y-o-Y growth. Now this is factoring in the [1P] business as well. So I wanted to understand that, is it more a situation where your base is catching up, because of which, you're going to see slightly slow momentum compared to what we used to see in the last 2 years? Or is it more to do with a specific strategy around what you want to target in the delivery segment?

Now just a part of that question also is that, while you, I think, given a broad indication of what Jaya would be because you've mentioned that revenue guidance even excluding Jaya would be at least 50%. So that sort of ballpark gives an idea of probably Jaya's closer to $200 million GMV for the year. If you don't want to give a quarter number, at least, could you give us an idea of how overall 1P business would be in terms of numbers for Jaya for the -- at the time of acquisition? So that's my first question.

Peter Oey - *Grab Holdings Limited - CFO*

So I think there was a lot of questions within that question, Venu, so -- and I want to make sure I want to hit your question right. So can I just as -- repeat it.

So you had a question around deliveries, and in terms of the 23% year-over-year and what is driving that?

Venugopal Garre - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

[Yes.]

Peter Oey - *Grab Holdings Limited - CFO*

Coming to the first quarter. Got it, okay.

And then your second question was around -- I believe it was around the revenue guidance. Is that correct?

The revenue, $1.2 billion to $1.3 billion. [I'm going to address that...]

Venugopal Garre - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes, yes. And second question was just would like to understand, how much is 1P in that? Because you also mentioned that, excluding Jaya, we would still expect the case of 50% growth. So I could probably calculate, based on your guidance, that Jaya would at least be $200 million. Now I'm pretty sure you don't want to give the numbers for this year. But at least at the time of acquisition, what was Jaya on an annualized basis? It would be good to know.

Peter Oey - *Grab Holdings Limited - CFO*

Yes. Look, yes. In terms of Jaya, look, we're not breaking it out in terms of Jaya numbers itself. And I think from a revenue guidance perspective, and we're not giving out quarterly revenue guidance also. So we're only giving full year revenue guidance itself. A good way to think about it is, around our revenue, excluding Jaya, on a full year basis to grow at no less than 50% this year. So that gives you a good feel. Of which, 1P is, I would say, insignificant.

Around the deliveries, your other question around the deliveries guidance, I believe, that's for your other part of the question. The delivery business, like I said, it's going -- it's growing. And there's good growth in that business itself. Again, 1P, it's not a big piece. It's insignificant to us. Our delivery business still primarily comes from the marketplace that we've continued to develop. And that's reflected also in our improvement in our margin as well as reflected in our improvement in our commission rate. So far, I think we feel pretty good around where we are with our deliveries GMV guidance.

Again, there are some seasonality factored in into deliveries. April was a month of Ramadan for us here in Southeast Asia. So there is that seasonal impact that we're taking into account. But overall, stepping back, it's growing and it's stable.

Venugopal Garre - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. And if I could, a second question on the mobility segment. While fare, fuel cost increases have, of course, very different country to country, right, depending on the various strategies of these countries itself. Now the fare increases that we have done, especially in terms of surcharges, firstly, I wanted to understand that, I'm assuming it fully covers the sort of fuel price impacts.

And the second thing within that is, at least based on my observation in Singapore, fares itself seemed to have gone up a lot. So I'm an active user of the platform. So I wanted to understand that, is it because of driver supply challenges continuing specifically in Singapore because it's a large market for you? And if that is the case, that fundamentally, is it a good enough strategy to have overall fares go up because it will probably help your unit economics as well?

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

Yes, I'll take that question, Venu. Thanks so much . Basically, how we think about it is, number one, is be the most reliable platform. I think that is from a -- as part of our Grab way, is really serve consumers and be the most reliable out there.

Number two is then how do we actually keep fares affordable, even, as you said, in a supply constrained environment? For us, we think about it this way. Even though demand outstrips growth -- outstrips supply, when we do our internal benchmarking of prices versus some of our peers. Actually, we -- on average, we're actually better and cheaper. And we look at this whether it's a P25, P50, P75 across the segment. So on some -- again, some of our peers, actually, we are more affordable.

So -- and then the third is what we're seeing. Yes, there's one side, is the consumer. The other side, and just as important, is the driver side. We remain the best-earning platform for drivers. Even when recently, when Alex and I were just interviewing many drivers, we do these small group sessions. And the drivers who are driving for our peers even said, hey -- they left because we excluded them in our platform because they did some things that breached our policies. But they said, "Look, if you can take us back, we will gladly come back because we know that from an earnings platform, this is still the best earnings platform, even though we have been driving and really being very cost-conscious."

Operator

Our next question comes from Thomas Chong with Jefferies.

Thomas Chong - *Jefferies LLC, Research Division - Equity Analyst*

My question is about the advertising business. Can you comment about the future monetization potential?

And secondly, regarding the digital finance, can we talk about our long-term strategies and opportunities on partnership expenses?

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

Yes, so maybe I'll take the first question on advertising and monetization of advertising. So what we are seeing actually is we're seeing a very strong growth with GrabAds. In fact, if you compare just the same time period, you're looking at 7x growth over the same period a year ago.

We also saw that Grab merchants who actually are using our self-serve advertising platform, this basically provides them search and display ad options, to grow their sales in-app. So we are seeing them onboard more, because in 2021, we see GrabAds has proven very effective, especially for small merchant partners. It delivered 600% return on every dollar spent through this tool in 2021.

So our focus is to continue enhance GrabAds' value proposition to our merchants because we believe, when they grow and perform, so do we, sustainably.

Alex Hungate - *Grab Holdings Limited - Chief Operating Officer*

And let me take that question on the long-term strategy for financial services and the partnership expansion strategy. Financial Services plays an important role in helping us grow and expand our marketplace. We know that users of GrabPay have a 2.7x increase in engagement as compared to cash users and a 4.5x increase in spend and a 1.3x increase in retention. So it's a very healthy way of us growing in our user base and keeping the spend growing as well for those users.

Now we are adding new services like embedded insurance and lending, which have higher margins so that the GrabPayers start to convert to higher-margin products. And that also helps us to support the health and growth of our marketplace.

As we add digital banks, we can use the extraordinary depth of information we have about our users to do better credit underwriting, better collections and obviously, low-cost distribution of those products as well. And the unique thing about having a digital banking license, of course, is you can start to gather deposits which reduces your cost of funds. So you can see that overall, we see the combination of digital bank licenses and the very strong fintech capabilities that we've developed as a way of helping our users to grow in our marketplace and helping to add new users to that marketplace.

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*

I have a few questions. First, I just wanted to double check on this entire take rate on deliveries, which increased from 17.5% to 19.3%. Is this largely driven by Jaya, or there were certain underlying factors also?

Peter Oey - *Grab Holdings Limited - CFO*

It's basically about product mix and the country mix. So Jaya has a component to it. But overall, also, there's country mix for us.

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

Okay. And can you help give a bit more clarity in terms of which countries are stronger as compared to others?

Peter Oey - *Grab Holdings Limited - CFO*

We don't break out the countries, but all our countries are trying to optimize their take rate. And we're also trying to, also at the same time, improving our GMV per MTU in all those countries. What I would say is certain countries, as they're coming out of the lockdowns or the Omicrons, are growing at a much faster pace. And also, they are coming out also in terms of different order sizes, and that helps the product mix for us, and the country mix also.

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

So let me put that question in other words. So if the country mix tomorrow again reverses, should we see this going down again back to 17%? Or it's just because of Jaya, it will remain high at around 19%-odd going ahead?

Peter Oey - *Grab Holdings Limited - CFO*

Look, it's too early, I would say, whether Jaya has an effect on that. We've only been with those guys for 2 to 3 months now. We're obviously trying to optimize our take rate in every possible way. But also at the same time, we're conscious that there are other demand and supply from a marketplace perspective. We're trying to balance that. I think it's a bit too early to tell whether Jaya can play a significant part in terms of where our rate can continue to improve or will stabilize.

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

Got it. My second question is regarding the corporate cost. I heard you guys mention that mainly on the product development talent pool. If that's the case, should one look at it as a percentage of GMV? Or it should generally be looked as largely a fixed cost?

Peter Oey - *Grab Holdings Limited - CFO*

The way we look at regional costs, just in terms of how we're tracking, is we compare it to as a percentage of GMV. It's a good way for us to just benchmark it. And again, yes, you're right, we are -- we did make -- we continue to make investments in product development, and tied to that is our talent pool. If you look at the majority of our regional cost structure, its product development, data science, all related to really creating the product for us. And that's a critical piece.

So we -- having said that also, at the same time, like I mentioned earlier in my statement, that we are looking to reduce and make those costs optimized also at the same time. So we're trying to drive greater internal efficiencies at all different departments, and product development is part of that. But also at the same time, we want to make sure that the product continues to evolve as a platform as we continue to grow our top line also.

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

Okay. No, the reason I ask this question is I just wanted to understand it, should it grow in sync with the GMV? And I do understand some cost control. So in simple terms, in other words, would the gap between adjusted EBITDA and reported EBITDA continue to widen on the back of this higher corporate cost?

Peter Oey - *Grab Holdings Limited - CFO*

From a [percentage of GMV] (corrected by company after the call) perspective, our regional costs will continue to come down, and that's important for us. And I think it's important for us to maintain, that we optimize the cost structure. So I would say that continue to look at it as a percentage of GMV is a good benchmark.

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

Got it. And my last question is, when we look at the currency movements for the last 3 months, everything has obviously [moved off the dollars]. And I understand you guys report on U.S. dollars while the underlying currencies are in local currencies. So possible to give some kind of a translational impact, what it has on the back of your guidance? Or what you're seeing, given the strong currency movements around?

Peter Oey - *Grab Holdings Limited - CFO*

Yes. We're watching the currency, the strengthening of the dollar, obviously. And what I would say is we have taken in some of those movements in currency that's been happening in the last month or 2 and we've baked it into our guidance.

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*

Well, thank you very much, everyone, for carving out the time just to listen. We had a great quarter, and we're off to a great start as we enter into Q2 already. So thank you very much, and we'll talk again next quarter. Thank you very much.

Operator

This concludes Grab's First Quarter 2022 Earnings Presentation. Thank you for your participation. You may now disconnect your lines.