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GRAB.OQ - Q4 2023 Grab Holdings Ltd Earnings Call

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PRESENTATION

Operator

Hello all and thank you for joining us today. My name is Lydia and I'll be your conference operator for this session. Welcome to Grab's Fourth Quarter and Full Year 2023 Earnings Results Call. (Operator Instructions)

I'll now turn it over to Douglas Eu to start the call.

Douglas Eu

Good day, everyone, and welcome to Grab's fourth quarter and full year 2023 earnings call. I'm Douglas Eu, Head of Asia 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 fourth quarter and full year 2023 financial results. Following prepared remarks, we will open the call to questions.

During this call, we will be making forward-looking statements about future events including our future business and financial performance. These statements are based on our current beliefs and expectations. Actual results could differ materially due to a number of risks and uncertainties as described on this earnings call, in the earnings release and in our Form 20-F and our filings with the SEC. We do not undertake any duty to update any forward-looking statements. We will also be discussing non-IFRS financial measures on this call. These measures supplement, but do not replace IFRS financial measures. Please refer to the earnings materials for a reconciliation of non-IFRS to IFRS financial measures. For more information, please refer to our earnings press release and supplemental presentation available on our IR website.

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

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

Thank you for joining us today. 2023 was a pivotal year for Grab. We set out to achieve a number of big milestones and we delivered on our key goals. Our Mobility business, which was severely impacted by the pandemic, exceeded pre-COVID levels as we exited 2023. This was done through

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focused product investments into our key affordability initiatives and targeting traveler demand. In Deliveries, we drove a reacceleration of our Deliveries GMV executing upon 3 consecutive quarters of sequential growth post COVID normalization. In the fourth quarter of 2023, Deliveries GMV reaccelerated to grow 13% year-on-year setting us up strongly for 2024. At the same time, Deliveries segment adjusted EBITDA margins expanded by over 160 basis points year-on-year as we continued to drive marketplace efficiencies and grow our category leadership position across all our core markets amid reductions in incentive spend.

And finally, at a group level, we achieved our bottom line goals. We turned group adjusted EBITDA profitable since the third quarter of 2023 and also achieved adjusted free cash flow and positive net profit for the first time in the fourth quarter of 2023. These outcomes were achieved by driving intense scrutiny and discipline on costs while innovating relentlessly to deliver top line growth. While (corrected by company after the call) net profit benefited from an accounting accrual reversal, more importantly, our adjusted EBITDA continued to grow quarter-on-quarter. This showcases our ability to deliver strongly on the bottom line, which we are committed to improving in the coming years.

Importantly, we took strides towards profitable growth while staying true to our mission, empowering everyday entrepreneurs. During the year, we generated over $11 billion of earnings for our driver and merchant partners, which is an all-time high. And our average driver earnings per transit hour also grew by 14% year-on-year while also onboarding over 700,000 new merchants in the year itself. We achieved this by driving win-win solutions such as hyper-batching and just-in-time allocations, all of which enabled us to improve the productivity of our driver partners, enhancing their earnings potential while reducing our cost to serve. For Grab, improving lives and livelihoods is not just the right thing to do, but makes financial sense for us to. Only by helping our communities to thrive, can we also thrive alongside them.

Looking ahead to 2024, this is a year where we will build on our foundations and double down on the following key priorities. First, we will deepen our engagement with all our users by focusing on value creation through product innovation. One such initiative is GrabUnlimited, the largest on-demand paid loyalty program in Southeast Asia. We are confident that we will be able to drive further uplift to customer lifetime value by stepping up cross-selling initiatives and service differentiation for our users, which will lead to improved usage frequency and retention rates. We've already demonstrated this in 2023 via the cross-sell of GrabUnlimited to our supermarket Jaya Grocer in Malaysia, which resulted in net new MTUs onto the Grab platform. We've also seen strong traction with our Malaysian digital bank GXBank, which was launched in the fourth quarter of 2023. This is the first digital bank out of the 5 licenses granted in Malaysia to launch. GXBank has seen more than 100,000 customer signups in just the first 2 weeks, of which 79% of depositors were existing Grab users. Our loans disbursals for GXS Singapore also grew quarter-on-quarter and over 80% of GXS customers with an active loan (corrected by company after the call) have ecosystem linkages to Grab.

Second, we'll continue to expand the top of our funnel. We'll do this by increasing our appeal to travelers, harnessing strategic product partnerships such as with WeChat or Alipay or expanding our product portfolio to provide not just affordable solutions, but also high value offerings. I'm particularly excited about 1 of our new launch products, Family Accounts. This feature allows users to add their loved ones to a group account, enabling users to share payment methods with potentially new to Grab users, example family members or elderly parents, while allowing them to keep track of each other's rides for peace of mind.

Third, (added by company after the call) we'll further leverage generative AI to drive productivity enhancements. For example, we have now developed our own in-house LLM powered marketing tool, which has enabled us to reduce content generation time from 99 hours to just 90 minutes while raising output quality. And furthermore, our pilots also show an improvement in click-through rates as compared to content generated manually. So this not only drives significantly greater throughput, but also enables us to stay lean and disciplined from a cost management perspective. Savings can then be reinvested into more technology to drive greater long-term growth for the platform. This is only one of the many GAI initiatives that we are currently working on that we are proud to share with you today.

Now from these 3, we won't stop here. As a leader of this company, I'm constantly looking at ways where we deliver greater impact and bolder growth by investing and incubating brand new tech-led initiatives. When successful, these initiatives will be transformative for Grab. Our leaders have all been empowered to drive this step change for us to reap the fruits of this labor in the subsequent years. In executing such initiatives, we'll be strategically patient, but tactically impatient and always remain good stewards of capital. As part of this push, we expect these initiatives to accelerate revenue growth rates in the midterm after 2024, building on the solid foundations we are establishing this year. Peter, our CFO, will elaborate later. Finally, on creating shareholder value, we see a clear path to steady group adjusted EBITDA growth and to improve upon our adjusted free cash flow generation in the years to come. With the progress that we have made on profitability with a strong balance sheet in place,

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we are announcing 2 capital market-related activities today that have been approved by our Board of Directors. Firstly, we plan to repay our remaining Term Loan B debt facility, which we expect will save us around $50 million in interest expenses annually. Secondly, we are announcing our inaugural share repurchase program of up to $500 million, which Peter will share more on later.

In closing, we are incredibly excited about what Grab will embark on in the years to come. Southeast Asia is a fertile ground for us. We're now the largest on-demand platform in the region at a scale that is over 3x larger than our next closest competitor and yet there's still a lot for us to achieve for our partners in this region. Having operated in the region for over a decade, we're now best positioned to deploy our significant local knowledge, data insights, scale and technology to solve the region's many complex problems, including accelerating financial inclusion for the underbanked. We will also remain relentless in innovation to unlock new possibilities for our users and partners while ensuring we continue to focus on growing our bottom line and shareholder value over the long term.

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

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Thank you, Anthony. Our fourth quarter results demonstrate our commitment to driving both top line growth and bottom line improvements while deepening market penetration across the region. Over the next few minutes, I will share our operational highlights and the underlying drivers of these results starting with Deliveries.

We saw robust demand growth for Deliveries with both MTUs and GMV at record highs driven by improving year-on-year spend per user across our 2018 (corrected by company after the call) to 2022 user cohorts. Our pre-COVID cohorts are spending well over 2x relative to their initial year and even cohorts that started during or after the COVID lockdowns are showing higher spend relative to their initial year. Everything that we do is about making ourselves the #1 choice for our users and partners in Southeast Asia.

In order to achieve this, we continue to improve the affordability and reliability of our delivery services as we reduced our cost to serve so effectively that we were able to expand our profitability at the same time. Our teams have executed strongly on this front, and we have made meaningful improvements in several of our efficiency metrics such as batching and trips per transit hour. Almost 40% of our Deliveries orders were batched in the fourth quarter, growing by around 10 percentage points year-on-year. And average delivery fees for batched orders were 8% lower than unbatched orders supporting our push for greater affordability. Adoption of Saver deliveries, a key focus in 2023, also hit 23% of all delivery orders. And as we expected, Saver users recorded average frequency levels that were 1.6x higher than non-Saver users during the fourth quarter. In Singapore where Saver was launched much earlier than our other markets, 8 out of 10 Saver orders are now batched.

And looking ahead, we see further opportunities to improve on our efficiency while expanding our product portfolio to maximize value and convenience for a wider range of users. We have begun to roll out several hyper-batching product initiatives that not only improve batching rates, but also maximize basket size per trip while providing users with more affordable delivery fees. While for our users who want their food faster, we also offer priority deliveries. In contrast to Saver, priority deliveries have higher delivery fees relative to standard and they generate adjusted EBITDA margins which are much higher than standard deliveries on a per order basis. Priority deliveries is still in its early days as it comprises only 6% of orders and we are confident we can continue to grow adoption of this product.

GrabUnlimited, the largest paid on-demand loyalty program in Southeast Asia now, is proving to be an important engagement and attention driver for our loyal users. The program continues to account for 1/3 of Deliveries GMV and subscribers exhibited healthier spend levels and retention rates relative to nonsubscribers. We see opportunities to improve customer lifetime value on GrabUnlimited by driving up cross-sell rates particularly to Mobility and Financial Services as well as to introduce more nonmonetary, exclusive benefits for our most loyal subscribers.

Looking ahead, I'm confident that our Deliveries top and bottom lines will continue to grow healthily in 2024. While our Deliveries business performance is typically impacted by seasonal factors in the first quarter, I do want to call out that Deliveries demand has held up resiliently so far this year and we expect GMV to be relatively stable now on a quarter-on-quarter basis. We also anticipate year-on-year growth rates in the first quarter to remain north of 12% and for demand to grow sequentially in the second quarter.

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When we (corrected by company after the call) take a step back and examine the overall food competitive landscape, the competitive moats that we have built have enabled us to remain in pole position as the regional category leader across Southeast Asia with a scale advantage that's now more than 2x larger than our next largest competitor. In 2023 we drove year-on-year category leadership expansion across every one of our core markets and at the same time, we have improved Deliveries segment adjusted EBITDA margins by over 160 basis points to 3.6% and are profitable in every one of our core markets on a segment adjusted EBITDA basis. Looking forward, we also see headroom for segment adjusted EBITDA margins for Deliveries to expand by a further 100 basis points to 200 basis points over the medium term.

The success of this organic strategy means that we must hold a correspondingly high hurdle rate when assessing inorganic opportunities. While as a matter of policy we do not comment on rumors, we understand that Delivery Hero has issued a statement overnight indicating that they have terminated discussions with regard to a potential sale of their Foodpanda business in certain Southeast Asian markets. Consistent with that statement, Grab can also confirm that it is not pursuing any acquisition of that business.

Now moving on to Mobility. Our Mobility business recorded strong year-on-year GMV growth. We also exceeded our guidance with GMV surpassing pre-COVID levels as we exited 2023. This growth came on the back of strong demand as we focused our efforts to further drive growth in domestic ride hailing and on capturing the return of traveler demand as it started to ramp up throughout 2023.

We previously shared that the traveler segment is a key focus for us. Compared to domestic users, travelers are generally less price sensitive and on average spend nearly twice as much as domestic users. We are pleased to see that our efforts to capture this set of users has yielded good results. Year-on-year, Mobility traveler MTUs and spending grew 67% and 68%, respectively, during the quarter. And in 2024, we still see headroom to continue targeting international traveler demand to provide further upside to our Mobility business. Notably, official stats estimate that inbound travelers across several of our core markets are still at only around 70% of pre-COVID levels with governments projecting further growth in inbound travel this year.

In addition, we continue to aid drivers in improving their productivity and earnings potential on our platform while also reducing our cost to serve to improve the affordability of our services.

Our efforts to optimize driver supply and enhance driver efficiencies to meet demand continue to bear fruit. During the fourth quarter, monthly active driver supply grew 11% year-on-year with total online hours growing 20% year-on-year and this resulted in the proportion of surged Mobility rides to further reduce by 589 basis points year-on-year. Correspondingly, average frequency per Mobility user grew 11% year-on-year and in tandem with higher volume led to improvements in ride hailing driver utilization rates and a 14% year-on-year increase in average driver earnings per transit hour.

As we look ahead to 2024, we expect growth rates for Mobility to remain strong. We usually see seasonal softness in the first quarter, but with our efforts in place to drive demand, we expect Mobility demand to be stable sequentially.

And structurally, similar to Deliveries, we see plenty of headroom to increase total users and enhance frequency levels by expanding and deepening our product portfolio across our key affordability and high value initiatives. One of these key affordability initiatives was the relaunch of Move It, our 2-wheel ride hailing app in the Philippines, which has seen daily rides grow phenomenally by over 30x in less than 8 months. It was such a proud moment when earlier this week we met many of the new drivers who have joined us in Manila and were so happy for the opportunity to earn a good living on the Grab platform. In fact, when I arrived at the center at around 10:00 p.m., there were still hundreds of new drivers arriving to sign up. Beyond our affordability initiatives, we see ample opportunities to roll out and expand newer products such as GrabCar Premium, which will enable us to tap into newer user segments such as corporate travel demand.

Moving on to Financial Services. Revenues here more than doubled year-on-year and grew 12% quarter-on-quarter on the back of higher contributions from our ecosystem payments and lending businesses. Total loans disbursed in 2023 grew 57% year-on-year to reach $1.5 billion and we ended the quarter with $326 million of loans outstanding underpinned by the expansion of ecosystem lending in GrabFin and the new FlexiLoan volumes from GXS Bank in Singapore. This is even while we maintained NPL ratios at low single digit. Customer deposits across our digibanks stood at $374 million at the end of 2023 as we are still managing our deposit balances underneath the regulated deposit cap in Singapore. Segment adjusted EBITDA losses narrowed year-on-year driven by higher revenues from lending and from payments where we further streamlined our cost base in

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GrabFin as we focused our strategy on on-platform payments. We also continue to see solid traction across our digibanks, as Anthony highlighted earlier.

Finally, on our Enterprise and New Initiatives segment, year-on-year revenues more than doubled while segment adjusted EBITDA grew by 378%. During the fourth quarter, our advertising business reached several all-time highs. Advertising revenues scaled to 1.5% of total Deliveries GMV and reached an annualized run rate of nearly $160 million while segment adjusted EBITDA margin as a percentage of revenue is nearly 80% in this very profitable business. We deepened the penetration of our advertising self-service platform among our merchant partners while improving monetization rates. We saw monthly active advertisers joining our self-service platform grow by 54% year-on-year to 115,000 while active advertisers consistently demonstrated higher retention rates than nonadvertisers. And average spend by active merchants who adopted self-serve advertising tools also increased 129% year-on-year, underscoring the value we deliver to our merchant partners who try out our advertising platform. While advertising penetration is still relatively nascent today, we see plenty of upside to drive demand for our advertising services and value for our merchant partners and other top brands.

So in closing, we are happy with the progress that we've made in expanding our top line while driving operational efficiencies to improve our bottom line. There is still significant headroom for growth going forward both in terms of driving frequency uplifts, user stickiness and adding new users and partners to our platform.

And with that, let me turn the call over to Peter.

Peter Oey - *Grab Holdings Limited - CFO*

Thanks, Alex. We closed out 2023 on a strong footing. In the fourth quarter, revenue grew 30% year-on-year to reach $653 million while full year revenue grew to $2.36 billion. This is above the top end of the revenue guidance that we revised up in the last quarter. The strong revenue growth was driven by all segments of our business. On a year-on-year basis in the fourth quarter, Mobility revenue was up 26% as we continued to see strong demand from domestic users and international travelers across the region. Deliveries revenues grew 20% as we continued to grow GMV while reducing incentive spend. Financial Services revenue doubled in the fourth quarter and we improved payment monetization and increased lending contributions. And Enterprise revenues consisting primarily of advertising more than doubled year-on-year to hit an annualized revenue run rate of around $160 million. This was attributable to increased ads monetization and ads demand from our merchant partners.

On GMV, our on-demand segments of Mobility and Deliveries saw fourth quarter GMV growth of 18% year-on-year. Mobility GMV grew strongly by 28% year-on-year and exceeded pre-COVID levels as we exited 2023. Deliveries GMV recorded its third consecutive quarter of growth with a reacceleration in growth to 13% year-on-year. This was supported by strong underlying demand trends with Deliveries MTUs hitting a record high coupled with increasing levels of GMV per Deliveries MTU.

Moving on to segment adjusted EBITDA. Total segment adjusted EBITDA doubled year-on-year to $228 million in the fourth quarter. This growth can be attributed to all segments of the business. Deliveries segment adjusted EBITDA grew to $96 million in the fourth quarter with segment adjusted EBITDA margins expanding by over 160 basis points to 3.6%. Mobility segment adjusted EBITDA grew 20% year-on-year to $182 million with margins at 12.3%. Financial Services segment adjusted EBITDA narrowed 13% year-on-year to negative $81 million. The reduction in losses was driven primarily by lower overhead expenses and higher revenues from lending and payments in our GrabFin business that more than offset higher cost of funds, and also higher digibank related costs. Notably, payment cost of funds represented 26% of our Financial Services segment cost structure in the fourth quarter. Finally, for Enterprise, segment adjusted EBITDA grew by 378% year-on-year for the fourth quarter. As a percentage of revenues, margins expanded to 79%, consistent with our efforts to improve the monetization of our ad services and increased self-serve ads penetration across our merchant base.

Regional corporate costs for the fourth quarter improved 13% year-on-year to $193 million. The year-on-year improvements are attributed to reductions across both variable and our fixed cost base. Total headcount reduced 18% year-on-year as we continued to recognize greater efficiencies across the organization, while cloud costs and direct marketing expenses declined 32% and 16%, respectively, year-on-year in the fourth quarter.

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As a result of the strong top line growth and the greater focus on profitability, we continued to grow group adjusted EBITDA to $35 million in the fourth quarter, a year-on-year improvement of $146 million.

Separately for the first time, we reported a quarterly positive adjusted free cash flow of $1 million in the fourth quarter.

We also reported for the first time a net profit of $11 million in the fourth quarter. I do want to call out that while we reported a net profit in the fourth quarter, we benefited from the reversal of an accounting accrual that was no longer required.

As we look ahead to 2024, we remain committed to growing our business sustainably anchored on generating profitable growth and free cash flow. As Alex mentioned, our business performance is subject to seasonal factors. And in the first quarter, we expect on-demand GMV to be stable on a quarter-on-quarter basis with demand and supply being impacted by the Lunar New Year festivities and Ramadan. Nevertheless, we expect year-on-year growth rates for on-demand GMV to be healthy and to see a sequential rebound of GMV in the second quarter and continued growth during the year. From a margin perspective, we expect Mobility margins to be maintained at around 12% plus and Deliveries margins to be 3% plus through 2024. As we look beyond 2024, however, we see headroom for margins to expand by a further 100 basis points to 200 basis points for Deliveries in the midterm as we continue to build out new product features that enhance our operational efficiencies as well as drive greater marketplace optimization. We will aim to provide an update on our longer-term margins during our first quarter results call. Separately in Financial Services, we expect losses to sequentially narrow heading into 2024, coming down from peak losses in the fourth quarter of 2023.

On our forward guidance for 2024, we estimate revenues to come within the range of $2.7 billion to $2.75 billion representing a year-on-year growth of 14% to 17% and for adjusted EBITDA to be at $180 million to $200 million. In the medium term, we anticipate revenue growth beyond 2024 to accelerate as we are incubating and scaling up a series of tech-led products and initiatives that Alex and Anthony spoke about. We expect these initiatives to drive strong growth across our core products and services and also see meaningful upsides in contributions from our digital banks, advertising and our high value offerings as key examples.

And as for our adjusted free cash flow for 2024, we expect this to improve substantially year-on-year as we grow profitability and drive cash flow generation. However, I do want to point out that the trajectory of our quarterly adjusted free cash flow levels could fluctuate due to seasonal factors and the timing of payments for certain expenses such as bonus payments and capital expenditures.

Finally, we expect to be highly disciplined on costs and to continue driving operating leverage in the business. Centralized regional expenses, which accounts for approximately half of our regional corporate costs, is expected to grow broadly in line with inflation, much slower than our revenue growth.

Turning now to our balance sheet and liquidity position. We continue to maintain a strong liquidity position ending the year with $6 billion of gross cash liquidity, up slightly from $5.9 billion in the prior quarter. And our net cash liquidity was $5.2 billion at the end of the year, flat from the prior quarter.

I would like to also take some time to share our updated capital allocation framework with the objective of driving long-term sustainable value creation for our shareholders. First, we will have a high hurdle rate when it comes to deploying our capital and we'll have a balanced approach to investing for organic profitable growth and be very highly selective on inorganic opportunities. Secondly, we will continue to be efficient in our working capital needs and continue to maintain a strong balance sheet with ample liquidity. Third, where there is excess capital on our balance sheet, we will look to return it to our shareholders.

In line with this capital allocation framework, our Board of Directors have approved an inaugural share repurchase program of $500 million and the full repayment of the outstanding balance of our Term Loan B with the principal and accrued interest amount of $497 million as of the end of 2023. We are announcing our first share repurchase program now as we are in the fortunate position of having a very strong balance sheet while retaining sufficient cash to fund the growth of our business. This also underscores our commitment in driving shareholder value creation and only the highest return on investment opportunities when deploying our cash. This also has the benefit of offsetting dilution resulting from issuance of shares as part of our employee stock compensation plans. As for the repayment of the Term Loan B, we expect this to create significant interest expense savings for Grab of approximately $50 million per year.

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Finally, as we look ahead to 2024 and beyond, I would like to provide an update on our financial reporting that we will move towards beginning from our first quarter of 2024 results. We will be revising the composition of our operating segments, which reflects a change in how we plan to evaluate and manage the performance of our businesses, and to also enhance our segment's financial disclosures to be more comparable with peers. As such, from the first quarter of 2024, we will be allocating the relevant portions of advertising revenues and costs currently in our Enterprise segment, cost of funds currently in our Financial Services segment and regional corporate costs to the respective segments of our business.

Secondly, consistent with our strategic focus on ecosystem transactions and lending for GrabFin and our digital banks, we will be enhancing disclosures around our lending and banking business, which you have seen since our third quarter results, while discontinuing the reporting of GMV for our Financial Services segment as we deprioritize off-platform transactions. We'll share additional color on these reporting changes during our next earnings call.

In closing, Grab delivered a strong set of results in 2023 where we continued to grow across our top and bottom lines. As we look into 2024, we will continue to manage the business with 3 key financial guardrails. First, by continuing to generate sustainable adjusted EBITDA growth. Second, driving towards sustained positive adjusted free cash flow. And third, continue to drive operating leverage in the business.

Before ending the call, Anthony, Alex and I would like to thank fellow Grabbers, our users and partners for their contributions and support. Without it, these results and strong performance in 2023 would not have been possible. Thank you very much for your time and we will now open up the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Pang Vitt of Goldman Sachs.

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

First of all, congratulations on your first profitable quarter and announcing a positive surprise in the $500 million share buyback. On this point, can you share with us more on this repurchase program you announced? What will be the pace of this and how do you plan to utilize this program for the rest of the year? That's question number one. Question number two, we understand that Foodpanda, as you mentioned, has terminated discussion with regards to a potential sale in Southeast Asia. On this point, could you share potential color with us on why this asset was not of your interest and how does this potentially impact the competitive landscape in Southeast Asia going forward?

Peter Oey - *Grab Holdings Limited - CFO*

Pang, this is Peter. Let me take the first one around the $500 million buyback and I'll ask Alex to address your second question around Foodpanda. The announcement of the first purchase repurchase program, we view this as an ideal opportunity to look at investing in the long-term upside in our business and also we coupled with the $5.2 billion net cash liquidity position. Now as to the pace of how we deploy the capital, we will be efficient in how we're using that and a lot of that, Pang, will be influenced by the dynamic market itself. We will be very cautious in how we're deploying this cash in the market, but we are committed to the Board mandate for the share buyback program and we'll continue to update the market as we continue into the program.

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Pang, it's Alex here. Let me talk about the Foodpanda situation. As we were indicating in our comments, in food deliveries we are more than double the size now of the next largest competitor in Southeast Asia and we've been able to translate that scale into significant efficiency advantages. The cost to serve that Anthony was talking about and hyper-batching, the just-in-time allocation, all of these things work better at higher volume with

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higher density and that means we've been able to then drive affordability, which drives growth and improves our competitive position even better. So increasing CP in all markets, increasing margin in all markets and we've even shared today that we expect our long-term margins in Deliveries to go up by another 1% to 2% higher than the 3% plus that we've mentioned in the past as our long-term target. And that reflects the confidence that we have that we can continue with this organic strategy, driving growth and driving improved margin and driving better services for our consumers. And therefore, the bar for any inorganic use of shareholder funds has to be very high in comparison with that. And so in the end, any asset that we would acquire would have to be available at a very attractive price to cross that bar and I think probably that's all I should say.

Operator

Our next question comes from Venugopal Garre of Bernstein.

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

So 2 questions from me. Firstly, I remember last year you had started with an EBITDA loss guidance of about $275 million to $325 million and eventually you ended up reporting a loss of only $20-odd million. So I want to understand that while you've given a guidance of about $180 million to $200 million of profit this year on EBITDA level, but if I annualize your fourth quarter EBITDA, that itself is $140 million. So you're not really looking for a guidance, which is materially different from what you've delivered in fourth quarter in terms of run rate. I just wanted to understand that given a broadly positive outlook in the medium term as well on almost all your segments, why are we being a bit conservative on guidance? What is it that's something that we should watch out for if at all? And if the prices emerge, which are the areas you think the prices could emerge? That's my first question. Second one is a smaller one largely on the Financial Services sector. While we were anticipating some increase in losses sequentially given that you had noted the Malaysia launch. Could you just quantify the impact, if at all, more importantly for us to understand how the losses would shape up especially through the year? Is it going to be elevated for a while before it comes down or is it going to be a swift improvement?

Peter Oey - *Grab Holdings Limited - CFO*

Venu, let me address the first one around the EBITDA and Alex, I'll ask you to address the second part of the question. A few things here, Venu. One is, as Anthony and Alex mentioned, we are in 2024 focusing on deepening our product moats and we're incubating a number of product and tech investments particularly around operational efficiency improvements that we will expect to see growth acceleration in revenue beyond 2024. For this year, as we also alluded in the remarks, we are keeping our margins on Deliveries and Mobility fairly stable at the 3% and 12% plus, respectively. Now we do see opportunities for our Deliveries margin to expand in the midterm, we quoted somewhere around 100 basis points to 200 basis points and this you will see part of the EBITDA expansion in 2025 and beyond. But given where we are today and the line of sight that we have from a guidance perspective, this is where we are committed as a point in time. And as we continue to roll out these new product features, which we're very excited about, we will continue to update our EBITDA guidance.

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Thanks for the question, Venu, on Financial Services. Yes, you're right, the increase in the EBITDA losses in the fourth quarter as we had indicated was because of the Malaysia launch, the launch of GXB in Malaysia, which has been very successful. As Anthony said, in the first 2 weeks alone, we gathered 100,000 new accounts, but there were launch related expenses in the fourth quarter. We took in deposits of course, which is great, but we are not able to redeploy those deposits into the income generating lending products until we launch the loan products, which is upcoming in this coming quarter. So that is the first part of the question. I think the GrabFin costs remain relatively stable. You asked for some of the underlying factors elsewhere.

So GrabFin costs remained relatively stable quarter-on-quarter despite their improvements in revenues actually so they're heading on the right track there. And within that, you've got the cost of funds for our payments business, which supports the on-demand platform payments. That is approximately $30 million in the quarter representing about 26% of the total Financial Services segment cost structure. So hopefully, that's helpful for you to understand that that's an underlying piece of the cost structure in GrabFin. I want to call out that we see payments though as one of our

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core moats because having our own payments infrastructure will significantly lower the payment cost for Grab and we expect that payment cost to -- now because it's under our own control, so to speak, we expect it to remain roughly stable as a percentage of our on-demand GMV in 2024.

So there are 2 indicators for you, which might help you to model going forward. So going forward, the last part of your question, Q4 does represent the peak of the quarterly losses for the Financial Services segment for Grab. Now going forward we'll see the revenue kicking in from the loan book. So we're already lending in Singapore. We've got GFin also doing well with its high velocity, low ticket ecosystem lending. And then from this quarter, we'll start to have Malaysian loan revenue on top of that again. And in Singapore as the regulatory caps are lifted, the Singapore business can start to scale more aggressively also. So that's why we're calling Q4 as the peak of the losses for the Grab Financial Services.

Operator

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

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

I have 2 questions. First question, perhaps a follow-up to Venu's question, but want to ask that in a slightly different format. So if you look at what you guided for adjusted EBITDA and revenue, it does imply an adjusted EBITDA margin anywhere between 7.3% to 7.5% at the high end. Your last reported adjusted EBITDA margin was close to around 5%. So in a way we are looking for a 200 bps improvement in margin. And if the Mobility margin is around 12%, Deliveries margin around 3% plus; is a large part of the improvement predominantly driven by the Financial Services losses going down or it's also the Deliveries margin 3% plus implies maybe 100 bps improvement from that? So that's question number one.

Question number two, wanted to understand a bit more color on the centralized regional expense what you guys are talking about. I understand in the next quarter you're going to give details, but anything this quarter you guys want to provide in terms that will help us quantification going into next quarter? And the related question is basis my understanding, roughly 30% of your costs are largely linked to GMV. So as in how GMV increases, we should see an increase in these expenses in a pretty hefty manner, right? I just wanted to understand how one should look at the regional cost expense going ahead?

Peter Oey - *Grab Holdings Limited - CFO*

Okay. Sachin, let me take all those questions. Let me take the first part around the EBITDA margin. There's a couple of things here that I want to call out. One is there are operating leverage in the business. A lot of the product initiatives that we're pushing is also generating operational efficiency in our business. Some of that may be translated in the segment margins, some of those can be translated outside of our segments, in our corporate cost structure also. So there is improvement. There's operating leverage in the business. And what we said was the margin for our Mobility and Deliveries will be around about the 12% and 3% plus. Now GFin though, you're right. The GFin part or the Financial Services segment, as Alex just alluded earlier, will see improvements in the cost structure of our business as well, as they start to generate revenue especially from our banking and as we start to scale loan even further of that business.

So you'll see a dynamic of operating leverage in the business in terms of efficiencies and also the GFin or the Financial Services segment also coming down. The third part is around our regional corporate costs. That's going up roughly in line with (added by company after the call) inflation at (corrected by company after the call) around about say 4% on a year-over-year basis, which is at a significantly lower clip versus what our GMV growth is. Your second question around centralized regional corporate costs. So the cost structure there is growing in line with inflation, like I said earlier. Now there's always a couple of pieces in regional corporate cost. There's a variable piece and there is the fixed cost piece. Now the cloud and direct marketing will obviously commensurate with the growth of the pace of the business itself. Those are variable costs.

And while we're continuing to see efficiency both in cloud and marketing and you saw the reduction in those cost structure in 2023, we'll continue to make sure that those have been efficiently optimized. We will see as a percentage of GMV, those revenue -- those cost structure being stable, but from an absolute dollar perspective will continue to grow with the growth of our on-demand business. On the fixed cost structure though, it's going to be pretty much in line with the growth of inflation. That's how we're thinking about it. We're being very disciplined in terms of how we're

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managing our fixed cost structure. We're going to be very prudent in terms of how we are looking at headcount across the business and we are going to continue to find productivity across our workforce space as it comes. I hope that answers the question.

Operator

Our next question is from Piyush Choudhary of HSBC.

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

Congrats to Anthony and entire team on good set of results and announcing the share buyback. Two questions. Firstly, how do you expect MTU growth going forward across segments? In fourth quarter we saw good growth in MTU. Is it driven by gaining market share or you're able to expand the TAM with new solutions? And if you can call out like how much is seasonally driven due to travel and tourism in the region? Secondly, on the Deliveries segment, can you talk a little bit about your margin range across various countries? I would imagine that there is a big difference between Deliveries margin and there could be room for improvement over there in some of the countries where you have more intense competition. So why we are saying Deliveries margin will remain more constant year-on-year? Wouldn't that mix or improvement in those countries helped to lift margin even in 2024?

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Piyush, thanks for your questions. I'll take the first one on the MTU growth and then hand to Peter for the second one. We see opportunity on the MTU side from the Mobility recovery. Clearly, the traveler segment is not fully recovered since pre-COVID. As I mentioned in my remarks earlier, most external estimates suggest that it's only around 70% so far. Then we've got on the Deliveries, we're starting to see the effect of the affordability initiatives that we flagged to you earlier last quarter. We can see that it does drive new users using the platform and also frequency so that will give us an MTU boost as well. And then the Family Accounts that Anthony mentioned earlier, we're optimistic about that. We think that that will improve the kind of self-generated growth of MTUs, the network itself generating new MTUs. So we're very keen on that as kind of a hyper-growth driver as well. And then we think that we're barely tapped into the corporate premium segment and as we mentioned in our remarks, there will be some really fantastic new offerings coming up for that segment. So we hope that that will be a high margin and high growth opportunity for our MTUs going forward. Peter?

Peter Oey - *Grab Holdings Limited - CFO*

Piyush, also I just would add also from an MTU perspective, we're also driving engagement in our business. It's really important that yes, we can add MTUs, but also we've got to make sure these users are constantly engaging in our platform and we have more and more users now using the Grab platform. We finished the quarter at 38 million and we see opportunities to grow that even further in 2024. But it's also equally as important that they are constantly coming back to the platform and using them. That's part of our growth factors also in 2024, but that's going to also come from product features that we're investing in the business. And tied to that actually is your question around margins. Now you asked about country specific margins. We see our business as a portfolio. We don't look at while countries are important, but it's really important that we see it across the board, across all the countries itself.

And if you step back in terms of what we've done in Deliveries margin, we've seen margin improvement of over 500 bps over the last 2 years itself. Now this is a year that we are going to continue to consolidate and make investments into these new product initiatives that will drive engagement as well as also broaden the TAM base. We've worked hard last year in affordability with growth at TAM base there. We ended 2023 with record GMV and we're going to push this year also to make sure that we bring in new user base; but also that these user base are sticky, these user base are constantly using our product base and that will lead to further acceleration in growth of revenue and margins for our Deliveries business in 2025 and 2026. So this is how we're thinking about it. Where there is upside in margins, we'll obviously capture those margins. But for us, making sure that we are going to see revenue growth acceleration in the business especially in 2025 and 2026.

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Operator

The next question comes from Ranjan Sharma of JPMorgan.

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

Two questions from my side. Firstly, in the buybacks, there's a reference to privately negotiated transactions. If you can help us understand what could be -- how would you determine the reference share price for such transactions? The second question is on your overall cost base. Can you share some color like what percentage of your costs are coming in like U.S. dollars and Singapore dollars?

Peter Oey - *Grab Holdings Limited - CFO*

Ranjan, on the buyback, look, it's hard for us to quantify. Buybacks, as you know, is influenced and led by the market dynamics at the end of the day and the mandate that the Board has given us has given full flexibility in just how we deploy those capital. We'll see how the market from a dynamic perspective and will enter into the markets, whether it's block trades, whether it's trades that we do in the open market, that's all influenced by the price of the market itself. So it's hard for us to say because we can't control the market. What I can say is that we'll be efficient in how we use that cash for those buybacks for the highest return for our shareholders. On your second question around costs in USD and SGD. We're a USD denominated business. What we do with our cash predominantly will be fairly concentrated in USD. We naturally hedge our business itself. We're a diversified portfolio when it comes to countries as you know. But we make sure that from an FX perspective, we're not exposed and where we will, we will heavily concentrate our balance sheet on USD.

Operator

Our next question comes from Alicia Yap of Citigroup.

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

I have very quick 2 questions. First is just wondering how much of the FX fluctuation that you have baked into your 2024 revenues and EBITDA guidance? And then second on follow up on your comments about the inorganic versus the organic growth. Just wondering in what type of situations or what kind of synergies that you are looking for that will trigger you to think about the inorganic opportunity potentially if it arises?

Peter Oey - *Grab Holdings Limited - CFO*

Alicia, let me take those 2 questions. In the FX part of your question, look, we've obviously built in buffer in the movement in FX. We have to be prudent. We can't read in terms of what the forward FX rates will be. We have built in some conservatism in our foreign exchange in our model and that's being appropriate. We don't know where the rates will be in terms of the next 12 months. In terms of inorganic versus organic growth, Alex mentioned this a couple of times that we have a very high hurdle rate when it comes to inorganic opportunities. We are very, very focused in making sure that organic growth takes the most highest priority for us and we are investing in those products, Alicia, to make sure that to drive this engagement, to drive the user base, to drive growth especially because that's really what's going to deepen our competitive moat in the business today.

Operator

The next question is from Jiong Shao of Barclays.

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Jiong Shao - *Barclays Bank PLC, Research Division - Analyst*

I think, Peter, you mentioned a couple of times about the reacceleration in growth in 2025 and beyond. So usually the law of large numbers is growth rate tend to decelerate, moderate as you get bigger. But I was hoping you can elaborate a bit more on why the growth rate in 2025 and beyond will be higher than 2024 other than the advertising and fintech will contribute more. My second question is about travelers. I think Alex mentioned a couple of times as well that the travelers now only back to 70% of pre-COVID and some of the new stats we have seen from Chinese New Year for travelers seem pretty good. So I was wondering if you can talk about sort of how big is that Chinese travelers, is that revenue contribution to your Mobility business? Any color or numbers you can share, the trends you have seen during this holiday period a couple of weeks ago would be helpful.

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

Jiong, thanks so much for the question. I'll talk about growth and reacceleration of growth and why 2025 and how we are thinking about the confidence of it. We are actually very confident as a team in our ability to execute to drive revenue growth especially in the midterm. Hence, we set out these stretch goals across not just for '24, but beyond. If you just look at our past history, in 2022 and 2023 we showed some internal targets; for example our cost to serve. We had very broad numbers that many people thought we couldn't achieve. But we've shown now we're actually the most efficient cost to serve platform in the region by orders of magnitude and that's what we are going to keep demonstrating. We said what we're going to do and then we did it.

We said that the Mobility GMV will exit 2023 above pre-COVID and we did that as we drove focus and we targeted the return of traveler demand and the affordability segment and that grew very well. We said, hey, Deliveries will come back into GMV growth and we saw that with Q4 growing at 13% year-on-year and sequential growth for 3 quarters because we focused on GrabUnlimited, we focused on Saver and differentiation of pricing. And then we said we're going to deliver on EBITDA and we did actually way ahead of time. Now what we are saying is we are incubating growth with a lot of initiatives. One, you talked about it, advertising. We still see tremendous headroom there. We've seen increase in penetration across whether it's the big BD clients, whether it's small long tail we've seen and yet penetration compared to other markets is still very low. So we see a lot of headroom there. And we've seen how the ROAS or the return on advertised sales for them continues to provide even greater earning opportunities for all our merchant partners.

The second what Alex talked about was banking for example. We are very excited because we see revenue growth as our loan book scales. We saw that with GrabFin. We're very happy with our GFin team as they drove cost discipline and continue to grow with loan growth. Now with banks as we are very conscious on cost, at the same time we believe deposits and loans will continue to be growing strongly. With all that said, we also have shared or Peter has actually shared that a Deliveries margin upside of somewhere between 100 bps to 200 bps will continue to take place over the longer term as we invest more into tech and product. All that are just examples that will continue to reinforce reacceleration of revenue growth even beyond 2024.

Alexander Charles Hungate - *Grab Holdings Limited - COO*

Thanks for your question, Jiong. Yes, let me pick up the question about Chinese travelers. In fact Chinese travelers are more significant now than they were before COVID. But I think that could be largely driven by the efforts that we put into targeting them because we've done the integration with WeChat, Ali, trip.com. We've got the Chinese translation as well, in-app translation. So I think our top of mind awareness with Chinese travelers has increased and therefore, we're seeing that impact in our numbers. Having said that, I just happened to meet with the Asia head of a very large global hotel chain and he was saying that they're seeing much more domestic Chinese travel at this point than they saw pre-COVID as a proportion and less international. So I think there's still upside as the China economy starts to regrow again and the Chinese consumers start to travel internationally. But right now I think they're disproportionately traveling domestically based on some of the feedback we have from our partners.

Operator

Thank you. This concludes Grab's fourth quarter 2023 earnings conference call. Thank you for your participation. You may now disconnect.

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