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GRAB.OQ - Q2 2022 Grab Holdings Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for joining us today. My name is Katherine, and I'll be your conference operator for this session. Welcome to Grab's Second Quarter 2022 Earnings Presentation. After the speakers, there will be a Q&A session.

(Operator Instructions)

I will now turn it over to Vivian Tong to start the call.

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

Everyone, and welcome to Grab's Second 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; and Alex Hungate, Chief Operating Officer.

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

As a reminder, today's discussion contains forward-looking statements about the company's future business and financial performance. These statements are based on our beliefs and expectations as of today.

Actual events and results could differ materially due to a number of risks and uncertainties in macroeconomic, industry, business, regulatory and other risks, which are described in our Form S-1 registration statement and other filings with the SEC.

We do not undertake any obligation to update any forward-looking statements. The discussion today also contains non-IFRS financial measures, which could be considered together with, rather than as substitutes for IFRS financial measures. A reconciliation of non-IFRS to IFRS financial measures is included in this quarter's earnings materials.

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For more information and additional disclosures on recent business performance, please refer to our earnings press release and supplemental presentation for a detailed second quarter 2022 financial review, which can be found on our IR website.

Should you have any questions after this plantation, 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 strong second quarter results, underpinned by a robust rebound in our mobility segment and increased focus on cost management and a reduction of our incentive spend.

For the second half, we're focused on accelerating our path to profitability. This means we will focus on increasing high-quality GMV transactions on our platform so that over time, it will continue to lead to higher revenue, better margins and an improved profitability profile for all of our segments.

We'll do this by continuing to innovate our products to increase engagement on our platform and reduce our cost to serve. As we ride out the remaining months of this year, there are a number of key callouts that are consistent with our overall execution strategy.

First, we will focus on increasing high-quality GMV transactions. This will come with a trade-off of slower GMV growth. Thus, we are lowering our GMV growth forecast for the year. Second, we will be pulling forward our core food deliveries and our overall delivery segment breakeven timelines by 1 quarter and 2 quarters, respectively.

Third, we're also narrowing our 2022 revenue guidance range to the upper end of the previously announced range. We expect quarter-on-quarter improvements in our group level adjusted EBITDA. And fourth, -- as we have demonstrated over the past 2 quarters, we can grow sustainably. In the second quarter, we reduced our incentive spend as a percentage of GMV, delivered record revenues and strengthened our category leadership across our key verticals in Southeast Asia.

We also took action to exit some lines of businesses that do not lead to long-term and sustainable growth. As the macroeconomic situation continues to remain uncertain, we are committed to streamlining our business on the cost front, adjusting our services to meet changing consumer preferences and continuing to be good stewards of capital.

Our team is committed to growing sustainably and accelerating our path to profitability. I'll now give an overview of our performance before turning it over to Peter, who will give details of our outlook and financials.

In the second quarter, our mobility business saw a strong recovery as Southeast Asia opened up and lifted most travel and movement restrictions. We anticipate mobility demand to rebound further in the second half. We also expect fulfillment rates, a measure of how well we match demand and supply on our platform, to continue to trend higher.

In terms of mobility supply, we anticipate further stabilization as average driver-partner online h our earnings continue to increase as demand recovers. In the second quarter, for example, average driver earnings per online hour was up by 12% quarter-on-quarter and 31% year-over-year.

On the product side, we continue to make several improvements to reduce our cost to serve and increase partner productivity. For example, we expanded a zone scheduling feature from Singapore to more countries in the quarter. This feature allows drivers to focus on trips within selected zones, allowing us to better match demand in supply-crunched areas.

As of June, scheduled divers completed an average of 44% more trips per online hour compared to non-scheduled drivers. We also improved average passenger wait times for rides in July to near 2020 levels. This indicates we are getting better and matching demand and supply on our platform despite our mobility supply lagging pre-COVID levels. While we have made progress in getting our mobility business closer to pre-COVID

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levels, there's still much work to be done to give our consumers and driver partners a better experience. So we will continue to innovate with product enhancements, introduce new affordable services and onboard more drivers to help us get there.

Let's now shift to our deliveries business. We saw strong revenue growth; tripling compared to the same period a year ago and an improvement of our segment adjusted EBITDA margins from previous quarters.

This was driven by a reduction in total incentives as a percentage of GMV and contributions from Jaya Grocer. We did experience a softening in food delivery demand toward the second half of Q2, impacted by dining out as economies reopened.

Looking ahead for the year, we expect dine-out trends to continue to soften food delivery demand and for our focus on high-quality GMV transactions to spur our path to profitability, but moderate our rate of GMV growth.

Our long-term thesis on our opportunities within the delivery space has not changed. We continue to be focused on building a rich and diversified deliveries ecosystem, anchored on product innovation and delighting our consumers. This approach allows us to drive segment profitability while growing our category leadership position in the region.

In the quarter, there were a number of initiatives we took to reduce our cost to serve and improve consumer and partner experiences. We ramped up a feature to reduce the wait times of driver-partners at food merchants when they pick up food.

By reducing their wait times, they can increase the number of deliveries they make per hour, thereby boosting their productivity and reducing our cost to serve. In July, for example, we estimate that this feature together with other platform innovations saved drivers 12 million minutes compared to February.

On a consumer end, we expanded our pilot subscription program, called GrabUnlimited, to 5 of our major markets. GrabUnlimited is an ecosystem subscription plan that aims to bring greater value to our consumers while building brand loyalty. Early results from our GrabUnlimited pilots indicate that subscribers are more sticky on our platform and they order more frequently.

We also rolled out features that focus on affordability to give price-conscious consumers more options. For example, we launched differentiated delivery-time windows in some markets to allow users to choose delivery times that have lower fees. We did this because at certain off-peak periods, we have an oversupply of drivers.

So by doing this, we have more demand because consumers enjoy lower fees, and drivers get more jobs with much lower or no incentives from us. As a result of these innovations, we improved platform efficiency and drivers' earnings potential with the number of batched orders rising by 71% in the quarter compared to Q2 2021.

Looking ahead, we will continue to focus on growing our third-party marketplace and integrating Jaya Grocer into GrabMart in Malaysia, to scale our delivery segment profitably. Our Jaya Grocer integration is going well. As of July, we onboarded all Jaya stores onto GrabMart and in June, a Jaya Grocer store became one of the top-performing GrabMart merchants in all of Malaysia. This achievement gives us confidence that our approach to embed technology solutions and experiment with online to off-line fresh grocery experiences will benefit Jaya and our consumers.

Moving on to Financial Services. In the second quarter, we continued to optimize our business, by focusing on on-platform growth to reduce our cost base and drive more sustainable growth. On digital payments, we will reduce our spend on consumer incentives while reducing costs associated with off-platform use cases.

We also seek opportunities to offer more lending and insurance products to Grab ecosystem participants whom we have built a deep relationship with. For example, in lending, we saw strong growth in our ecosystem loan book over the past few quarters.

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In the second quarter, total loan disbursals were up nearly 3x year-on-year, while NPL ratios have kept steady and are still at low single-digit ranges. We're big believers that financial services can enable our Superapp flywheel to spin faster. We've seen over the quarters that GrabPay users have higher levels of retention rates, spending and cross-segment usage compared to cash users.

In the second quarter, 1 year retention rates for GrabPay users were 1.5x higher than cash users while driver-partners with loans exhibited higher satisfaction with our platform than those without. We will share more details on our financial services strategy in our upcoming Investor Day and how it ties with our digital banks. On the digibank front, we're on track to publicly launch a Singapore GXS Bank in the fourth quarter of this year.

Lastly, I want to go over our enterprise segment. In the second quarter, our enterprise revenue rose 30% year-over-year driven by gains in our advertising business. The bedrock of our enterprise segment is our focus on outserving our merchants and other players within our ecosystem.

Through GrabAds, we make merchants more discoverable, thus helping them grow their business. This also provides our users with delightful, embedded ad experiences that shape their buying behavior.

We will also invest in developing our own advertising platform to give businesses of all sizes access to data-driven insights to help them create, shape and launch impactful advertising campaigns.

In the second quarter, we also announced the launch of GrabMaps as an enterprise solution. We developed GrabMaps as a cost-efficient way to address the need for hyper-local mapping solutions in the region. We plan to further expand GrabMaps as a B2B solution to help other organizations with their location intelligence needs.

By focusing on all these strategies, we are confident we can meet the challenges ahead. We'll continue to grow our revenues sustainably, improve our margin profile and accelerate our path to profitability. I will now turn the call over to Peter to deliver a review of the financials.

Peter Oey - *Grab Holdings Limited - CFO*

Thanks, Anthony. We're pleased to report a strong set of results with revenue growing by 79% year-on-year and 41% quarter-on-quarter to reach $321 million, an all-time high. We saw a strong revenue growth across all our segments.

Our mobility revenues grew by 37%, underpinned by the continued recovery in ride-hailing demand. And for deliveries, revenues nearly tripled on the back of GMV growth, lowered incentives as a percentage of GMV, and contributions from Jaya. Financial services and our enterprise segments grew revenues 94% and 30%, respectively.

For GMV, we recorded growth of 30% year-on-year to reach $5.1 billion, also an all-time high. I do want to emphasize that our top-line results were impacted by foreign exchange translations given the stronger U.S. dollar. Hence, on a constant currency basis, our GMV grew by 34%.

Relative to our second quarter guidance ranges, we recorded stronger-than-expected performances for our Mobility GMV and Financial Services TPV, but we came in just below our guidance range for deliveries.

We note that delivery growth rates have started to moderate towards the back half of the second quarter, driven by dine-out trends as economies reopen, coupled with our focus to drive higher-quality GMV transactions as we taper our incentive levels.

We also saw FX translation impacts. On a reported currency basis, our Deliveries GMV grew at 19% year-on-year. But on a constant currency basis, it grew 24%.

For our commission rates, we saw an overall increase year-on-year. Deliveries commissions were up from 18% to 20.8%. Financial Services commissions up from 2.4% to 2.7%, whilst Mobility commissions were down slightly from 23.7% to 23.2%. The movements in Deliveries and Mobility commission rates were driven by product and country mix, while Financial Services commissions improved on the back of higher contributions from our lending business.

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For our segment adjusted EBITDA, our margins remain fairly flat year-on-year, but improved quarter-on-quarter by over 100 basis points. A key driver of this was our reduction on incentives as a percentage of GMV, which declined to 10.4% from 11.6% in the prior quarter.

On segment basis, Mobility EBITDA exhibited strong improvement in margins quarter-on-quarter from 9.8% to 12.1%, a 224 basis point improvement. More importantly, this is in line with our expected longer-term, steady-state margins of 12% for the Mobility segment.

In addition, our Delivery segment adjusted EBITDA margins improved quarter-on-quarter from negative 2.2% to a negative 1.4%, an 82 basis point improvement. Looking ahead, we will continue to remain focused on growing sustainably by being strategic in how we deploy our incentives.

Turning to group adjusted EBITDA, our margins improved from negative 5.5% in the second quarter of 2021 to negative 4.6% in the second quarter of 2022. This represents an improvement of 90 basis points year-on-year.

We also reported strong improvements in group adjusted EBITDA margins of 136 basis points from the prior quarter. Our regional corporate cost for the second quarter of 2022 was relatively flat quarter-on-quarter at $214 million, while as a percentage of GMV, it declined to 4.2% from 4.4% in the last quarter, and 5.2% in the second quarter last year.

I want to assure you that we are very focused on our overall cost management, and on driving greater internal efficiencies. In the first half of 2022, we initiated a number of actions to reduce fixed costs in our core segments, and to be more strategic on our incentives. In the second quarter, we took actions to exit our dark store presence in some countries, while deepening our focus on platform transactions in our financial services segment.

And on regional costs, we have slowed down our pace of hiring. We've streamlined certain functions and we've reduced other overhead expenditure. As a management team, we are focused on spending wisely and continually reinforcing a lean-cost culture without compromising our focus on driving sustainable growth.

We are striving to accelerate our path to profitability. For the second half of 2022, we are expecting to drive a sequential improvement in our adjusted EBITDA compared to the first half of this year.

As for our IFRS loss, we reported a second quarter loss for the period of $572 million, representing a 29% improvement from a loss of $801 million in the prior year period.

The improvement was 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. I do also want to point out that our IFRS loss of $572 million includes $317 million worth of non-cash expenses below our adjusted EBITDA line. Of this, $173 million was from the revaluation of Grab's equity investments, which are marked-to-market each quarter, and also $111 million from stock-based compensation.

Turning to our balance sheet, our liquidity and cash position continues to be strong and robust. We ended the second quarter with $7.7 billion of gross cash liquidity, including our $1.8 billion of Term Loan B facility. Our cash liquidity declined by $476 million from the end of the first quarter of 2022, predominantly attributed to net EBITDA losses for the second quarter, and also the repayment of borrowing and interest payments.

Our net cash liquidity was $5.6 million as of the end of the second quarter. We will maintain a prudent stance in how we allocate and deploy our capital. Cash preservation is top of mind. And as I mentioned at the previous earnings, the strength of our balance sheet is not something that we take for granted.

As we look ahead to the third quarter and to the rest of the year, for the third quarter, we expect Deliveries GMV of $2.4 billion to $2.5 billion, third quarter Mobility GMV of $1.05 billion to $1.1 billion and Financial Services TPV of $3.8 billion to $3.9 billion.

We expect to see continued improvement in the Mobility segment with the normalization of ride-hailing demand as economies reopen. Segment margins from Mobility have recovered back to 12% as of the second quarter, and we will aim to maintain margins at these levels, which is in line with our steady state assumptions.

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In Deliveries, we have baked in the FX impact into our GMV growth estimates for the rest of the year. We expect demand levels to remain firm, but year-on-year GMV growth rates to moderate from prior quarters as restrictions on dining out remain relaxed, and as we focus on driving higher-quality GMV transactions.

We expect our incentive levels to continue to taper down as we accelerate our path to profitability. We are updating and bringing forward our profitability time line for Deliveries. We now expect for Delivery segment adjusted EBITDA to break even by the first quarter of 2023, and our overall Delivery segment to breakeven by the second quarter of 2023. This revised outlook is 1 and 2 quarters earlier respectively than previously announced.

For Financial Services, we will also aim to optimize our cost base as we prepare for our digibank launches. We will continue to deepen our focus on platform transactions, and drive ecosystem benefits by growing partner lending and also partner insurance products. We believe this can enable us to grow in a sustainable manner and improve segment margins.

Looking at the full year of 2022, we have confidence that revenue can come in at the upper end of our initial guidance range to be between $1.25 billion to $1.3 billion as we focus on optimizing our incentive spend.

We also expect to drive a sequential quarter-on-quarter improvement in our adjusted EBITDA in the second half. Our efforts to streamline our fixed costs, focus on product innovation to reduce our cost-to-serve and also improve ecosystem engagement will enable us to improve and also accelerate our profitability profile in terms of our group adjusted EBITDA.

Finally, we have revised our GMV growth year-over-year estimates to be between 21% to 25% year-on-year. On a constant currency basis, our GMV growth estimates would be 25% to 29% year-on-year. This compares to our previous growth estimate, which was 30% to 35% year-on-year.

As I mentioned earlier, we have baked in foreign exchange impact, and we do expect a moderation in growth rates, particularly for deliveries on the back of normalization of demand from dining out trends and from our focus to drive high-quality GMV transactions to spur our path to profitability.

Nonetheless, we remain confident on the longer-term outlook in deliveries and we will continue to be focused on building a rich and diversified Deliveries ecosystem, anchored on product innovation and also delighting our consumers.

In conclusion, Anthony and I are continually inspired by our team, and what they've been able to achieve in the first half of this year. We want to thank Grabbers for their hard work in making these results possible, and we want to express our deep appreciation for our driver and merchant partners who make our platform what it is.

As Anthony has said, we are very focused on accelerating our path to profitability. While there is still a lot of work ahead of us, we are confident that our strong balance sheet, cost discipline and strategies will enable us to grow our segment sustainably, in order to capture the opportunities ahead and tackle the challenges that come our way.

We also look forward to sharing more details on our strategy and outlook at our Investor Day on 27th of September. 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 Vittayaamnuaykoon with Goldman Sachs.

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

Thank you very much for the opportunity and congratulations on the strong set of results. So a question for me. Firstly, on your guidance, why are you bringing down your GMV guidance but adjusting your low-end revenue guidance higher? How do we push the gap here? What is the basis and the assumption for the changes that you make? And what do you currently see in the market? Any color around current industry competitive landscape would be helpful.

Secondly, around the mobility margins, strong performance here. Can you comment on the driver supply issue that we seem to have in the earlier part of the year if you still see any lasting impact still? Specifically, why is the base incentive for your partner rising, but excess incentives are down. Consumer incentives are down materially as well, so are we at a steady state now? Overall, it also appears that you are already reaching the margins where you previously guided as long-term margins. So does it mean no more upside from here and you're just going to maintain your current margins?

Peter Oey - *Grab Holdings Limited - CFO*

I'll take this one. It's Peter Oey here. Thanks for the question. Let me address the first one around guidance. Yes, we did -- we are lowering our guidance. And let me just kind of break it down a little bit for you as to what's driving that. We talked a lot about FX in my remarks there earlier, so there was some FX component that's been baked in there.

Also, as we look ahead in terms of what's happening in Southeast Asia macro-wise, we are taking into account some moderation on our deliveries growth as consumer behavior is natural for them to actually dine-out more with the economies reopening in Southeast Asia. And we say the third piece is we're focusing a lot more also on high-quality GMV users into our top of the funnel also. It's something that we've been focusing since the beginning of this year. We're going to continue to focus on that .

So all those elements, if you bring it together, has some impact in terms of how we think about our GMV for the rest of this year. But if you look at our revenue, as I mentioned, we're continuing to be very confident and we've actually tightened the revenue guidance and we're looking at coming in at the higher end of the range between $1.25 billion to $1.3 billion there.

In terms of what you asked, question around is there anything macro related in terms of what we see in terms of inflation -- we're not seeing that in Southeast Asia as yet. We're quite bullish in terms of where the expectation is across all our business lines.

Your second question is around mobility. Yes, we are at 12% and kudos to our teams for getting to our second -- in the second quarter a lot earlier than we had anticipated. It is a steady state, as we mentioned previously in our guidance. and we're there, we're maintaining this 12% outlook itself. There's been a ton of work paying behind the scenes in terms of getting to the margin state. We've worked very hard in getting drivers back into our platform. And I'll ask Anthony to speak a little bit about that, how we're doing on the driver side, getting it back. And that's reflective in your question around base incentives versus access incentives. We are focusing to get drivers back into our platform itself, and we still have work to do on that front, but we're making very good strides there.

And on consumer incentives, as you can tell, we have been bringing that down also at the same time. So again, part of that is improving our unit economics of mobility business, improving our margin -- and we're very happy that we're at that steady state. So I'll get Anthony just to speak a little bit more about our driver supply.

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

Thanks so much, Pang. On driver supply, we added more than 50,000 drivers in the quarter, and we're actually getting much better at managing the demand and supply dynamics because of all the platform innovations we've made. We actually see fulfillment rates trend higher than pre-COVID levels. As we improve these fulfillment rates, and onboard more drivers, as Peter shared, we actually drove down our incentives at the same time.

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How did we do this? We did this by focusing on a much more efficient onboarding process while enhancing our platform to allow drivers to fulfill more trips and maximize their earnings potential. So just to give you a sense, in the second quarter average driver earnings per online hour was up by 12% quarter-on-quarter and 31% year-over-year.

So we're going to continue to add drivers. We're getting better at managing demand and supply on our platform just through constant product innovation.

Operator

Our next question comes from Mark Mahaney with Evercore ISI.

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

Could you talk a little bit more about the path to reducing incentives going forward? And maybe a little bit more on what's allowing you to do that? Is that because there's just less competitive intensity? Have you reached enough scale and the operational metrics are good enough that drivers and providers, suppliers, whatever, don't need as much incentives as they do in the past? So just spend a little bit more on whether it's competitive, structural or scale factors that are allowing those incentives to come down and continue to come down.

And then could you also just talk about this kind of low-quality GMV. How big is that in the deliveries segment? And it sounded like you're talking about lower quality consumers. So maybe just a little bit more of an explanation of what's a lower quality GMV consumer versus one that's higher quality?

Peter Oey - *Grab Holdings Limited - CFO*

Sure, Mark. Yes. Let me address the incentives firstly, and I'll get to the quality of GMV segment, how we're thinking about it. So on the incentives, you're right. We've been bringing our incentives down. In this quarter here -- in the second quarter, our incentives was 10.3% as a percentage of GMV, and that's down from 11.6% from the previous quarter. And if you look at the fourth quarter, we were at 13%. So we've come a long way, close to 300 basis points, as a percentage of GMV, improving our incentives.

What's causing -- what's driving that also? It's just we're getting better at it, Mark, to be honest with you. We're actually looking at the platform as a whole, we're making product enhancements as a whole also at the same time. And structurally, also the market is rationalizing at the same time.

So it's all those building blocks that's coming together that's making our incentive spend a lot more efficient also, and also it enables us to bring it down in the second quarter, and we'll continue to bring it down also in the second half of this year.

Now in terms of -- as we -- you asked a question about GMV, how we think quality users, how we're thinking about it is -- and it's something also that we've been working from the beginning of this year, it's all about targeting the right user base into our top of the funnel. And what I mean by high-quality GMV users is we are targeting users who are less sensitive to incentives. It ties back to our earlier question about incentives.

And why that's important to us, Mark, is because we see opportunities for more ability to cross-sell those users. The data shows that the users that were able to cross-sell have higher retention and higher spend. And if you look at the second quarter, 62% of our users use 2 or more offerings, and that's up from 56% at the end of last year. So we're continuing to drive more cross-selling and those users that we are targeting are a lot more -- their lifetime value is extending higher.

So that's why we are very, very specific in targeting those users we want to drive greater engagement. And part of that actually, Mark is the GrabUnlimited, which is the subscription product that we're beginning to pilot also. It ties in together with those user bases.

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Operator

And our next question comes from Alicia Yap with Citi.

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

My question is on deliveries. So could management share with us specifically which countries that you are seeing more significant slowdown in the user demand post the economy reopening? And among the food delivery and grocery delivery, so is the demand for grocery declining more? Or does it mainly come from food delivery?

And kind of within the food delivery, so do you have color or details on what type of restaurant or what kind of cuisine that we are seeing the biggest impact? And then my second question is a follow-up on the full year GMV guidance. In addition to the slower deliveries GMV, any business segment you also see slower growth?

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

Thanks, Alicia. I'll talk a bit more about deliveries, especially on growth. I won't go into specific cuisine types, but I'll just share -- what we are seeing with some of the growth trends and consumer behavior is dining out has taken place. And we actually anticipate some softening of the food delivery demand. And that's why we lowered our GMV estimates to 25% to 29% on a constant currency basis.

Now we are optimistic on the long-term potential of our diversified deliveries business, given the huge market opportunity and the relative use of our grocery segment. If you look just as an example, our mart business is only about 2 years old. And mart -- GrabMart grew close to 200% year-on-year.

On more about the consumer behavior changes -- how we think about it is what levers do we have within deliveries to meet these user needs? One lever we've been thinking about and we've been acting on is just diversification.

For example, customers want to save money. By not only ordering food delivery, they may actually show a preference to order groceries to cook for themselves, and we have that on our platform. We've also actually introduced differentiated delivery time windows to let users choose a time that has a cheaper delivery fee when we have cheaper off-peak supply.

So -- we are seeing this despite of the headwinds (inaudible) optimistic on the long-term opportunities in the delivery space, and we will continue to invest and innovate on our product offerings to adapt to these consumer preferences.

Peter Oey - *Grab Holdings Limited - CFO*

And then on your question around the guidance for GMV, you asked specifically around which segments. Actually, if you look at it -- if you step back, the mobility segment is going very strong. And as the economy has been reopening in Southeast Asia, you saw that we grew 50% year-on-year on a GMV basis and we're seeing organic demand continue to be very strong.

So we feel very bullish on mobility. If you look at it, we're only at 67% pre-COVID levels for mobility, so we still have some ways to go there. Airport rates are up close to about 9% now also as a percentage of GMV. So we still have a lot of room -- headroom for growth there, so we're pretty strong there.

We would say probably deliveries, as Anthony just mentioned, and that's tied to just the behavior of consumers, but also within all these, we've got FX that we baked in also. We're taking a more conservative stance on the FX side.

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Operator

Our next question comes from Mark Goodridge with Morgan Stanley.

Mark Goodridge - *Morgan Stanley, Research Division - Equity Analyst*

Two questions from me. First one is just on the graph on limited subscription products, I thought it was really quite interesting. Could you give us a bit more detail specifically, what percentage of GMV is this currently?

And also, can you share a little bit more on what evidence do you guys -- what are you guys really seeing that customers are ready to take up these subscription products, particularly in the markets like Indonesia and Vietnam?

I know you did mention that increasing order frequency, if you could maybe give us a bit more details on the percentage changes of some of that order frequency would be helpful.

Second question is on your capital allocation priorities. So when we have a look at your balance sheet, you guys highlighted almost $8 billion of cash liquidity.

Can you give us a little bit of understanding of the priorities over the next couple of years. So clearly, funding losses is going to be number one. You need some capital there for your banking licenses. I know in the past, you've mentioned potential industry consolidation of deliveries. Can you sort of run us through what are the capital priorities over the next couple of years?

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

Thanks, Mark. I'll take the GrabUnlimited question. We're actually very excited about GrabUnlimited. Because it's unique, it offers users ecosystem-wide benefits for a subscription fee. It's still in the pilot phase, Mark. Right now, it's rolled out in 5 of our 8 markets.

So on subscriptions, we actually see that it should be viewed as a profit per user play and not a profit per order play, because GrabUnlimited is useful in driving user stickiness. It's been useful in driving retention, order frequency and larger basket sizes in our platform.

And as you know, it's a commissions business. With larger basket sizes, it translates into higher commissions that we are able to generate. In Q2, the average number of transactions by GrabUnlimited subscribers was more than double that of non-subscribers in food delivery and mobility.

So we are excited about the potential of GrabUnlimited. We believe it strengthens our Superapp moat and will become a key differentiator for us from monoline food delivery or mobility companies.

Peter Oey - *Grab Holdings Limited - CFO*

Hey Mark, I'll take the other capital allocation question. Yes, we do have a lot of cash in the balance sheet. But like I said in my prepared remarks, we don't take that for granted so we're going to be very careful how we deploy our capital. And cash is king. Cash preservation is very much top of mind for us.

So in terms of how do we think over the next couple of years, definitely, our digibank is important for us, and we're about to launch in Singapore for an example. We've got Malaysia and Indonesia ahead of us. So it's important for us to continue to make sure we have enough resource there and allocated capital wise for the digibanks.

In terms of also our lending business, you've heard from Anthony, our lending business is scaling up, and we're watching out obviously the credit risk also profile on those. And it's been very, very encouraging for us. Our NPL is very low single digit.

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And we're taking more of a cautious perspective in terms of how we land. Hence, why we love lending to our drivers. We love lending to our merchants. We love lending to our very own ecosystem because the risk is much lower, and we're using equity to do that, as part of that. And as we continue to scale that also, there are opportunities for us to look at outside of our own balance sheet.

And then third, I would say we need to continue to invest in R&D. We continue to focus on product innovation, continue to also look at the opportunity in Southeast Asia. It is still an untapped market, and we know that. There are still opportunities, whether it's across all our core segments of our business, so we'll continue to double down on that part also, but doing it very cautiously also at the same time.

Operator

Our next question comes from Venugopal Garre with Bernstein.

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

My first question is on ride-hailing. We're clearly seeing an improving momentum in the business. We're still at 65% of pre-COVID levels that you had mentioned. When I look at your next quarter guidance, which is Q3, you're looking at almost a similar number compared to Q2 for, of course, a modest growth.

So is it like a seasonality element to Q3 versus Q2? Or is it more like a conservative sort of a number that you're heading towards that you have sort of given? Or is it more driven by the driver supply, which you don't want to accelerate that quickly, given that you are still focusing on profitability?

Peter Oey - *Grab Holdings Limited - CFO*

Sure, Venu. Yes. No, there's still a lot of upside in mobility, and we did bake in FX into our forecast out there. We're taking a more conservative stand out there. Our driver supply is coming back, so we're continuing to make sure that the marketplace and the demand and supply is getting calibrated. But we're very bullish in terms of where mobility is heading and there's still a lot of headroom for growth.

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

Got it. On the second thing is that 12% EBITDA to GMV is, of course, something that you had guided for the (inaudible) sort of fit in the second half. You've done that in the second quarter for ride-hailing. Food delivery as well, there's pretty substantial improvements in EBITDA to GMV, even sequentially.

So at the same time, you continue to intend to reduce incentives and improve or reduce losses overall from an EBITDA point of view. Now what I want to understand is that incrementally would a lot of EBITDA improvements come from overhead moderation? Or is it a very sticky number that overheads may not necessarily decline on an absolute basis given your investments especially, and focus towards expansion on the fintech side? So perhaps uncertain elements of cost that sit there as well.

Peter Oey - *Grab Holdings Limited - CFO*

Yes. So we're going to continue to focus on the overhead, and I'm going to refer to regional costs specifically here. You've seen the regional costs come down on the quarter. Yes, you saw that our regional costs went down from 4.4% last quarter down to 4.2%. And it's actually about a 100 basis points improvement on a year-over-year basis. So we're chopping away at it, and we're making good progress there. There's still work to be done on that front, for sure.

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The mobility margin of the 12%, we're continuing that, we're continuing to maintain that steady state. And as we look at other levers that we have in our business today to improve the profitability path, we've got also other discretionary spend that we're looking at for -- and incentives is a key component of that.

We're continuing to be very disciplined in terms of how we're deploying our capital towards incentives. You said that you've seen that also the coming down quarter-on-quarter, and we'll continue to watch that. At the same time also we're very cognizant that we have a very strong market leadership also out there, and we'll continue to make sure that's also being maintained at the same time.

Operator

Our next question comes from Piyush Choudhary with HSC.

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

Congrats on a good set of numbers. Two questions. Firstly, can you share or talk about what prompted you to exit the dark store operations in Singapore, Vietnam and Philippines? What were the key learnings for the company from operating these dark stores? And secondly, on the financial services, could you talk a little bit about the profitability or EBITDA sense going forward, given we are going to launch digibank in Singapore and then Malaysia, Indonesia, and any kind of ideal long-term EBITDA breakeven targets which you can share for financial services?

Alexander Charles Hungate - *Grab Holdings Limited - COO*

This is Alex Hungate. On your first question on dark stores, we realize that the customer experience of receiving groceries is a really key thing for us to drive, but we realize also that we can drive some of that through partnerships in certain markets. And of course, in the case of Malaysia -- through owning a grocer, Jaya Grocer, directly.

The reason for this is because the infrastructure, the supply chain and the points of presence around the cities are already there for the partners and for our own Jaya Grocer stores as well. And we believe this is a better cost structure for delivering 1P groceries in the longer run. I know there are some players out there who are building dark store networks. But from our experience, we took the decision that we thought that the existing infrastructure leveraged through gray store technology was a better formula for long-term cost leadership.

On financial services, we are creating value from our own platform payments and lending. And -- we want to continue to grow that. What we're finding though is the off-platform is dragging down the results, and you can see some of that in the second quarter numbers. So going forward, we are actually going through all those off-platform transactions and trying to bring them to neutral or better transaction economics.

But if we can't do those, then we will actually end up limiting the off-platform and just growing those areas on-platform where we know we can create value. Clearly, the reason we can create value is because we've got the lowest possible distribution costs. We've got an exceptional data advantage for our credit models, where we've seen from our history over the last more than a year that we can outperform with our credit models.

And of course, we also certainly have a collections advantage where we're lending to DAX and MEX who are getting income from our platform. So we believe that those advantages also can be extended to the digital banks and the digital banks, of course, have the key advantage of being able to gather deposits as well. And therefore, reducing cost of funds.

So it's a very similar strategy for our existing non-bank financial operations as we will have for our future banking operations. That means that we can maximize the relationship with the customer, we can maximize the trust that the customer has in Grab. And hopefully, that will drive us to having a quicker breakeven and return from those digibank build-outs than others who are starting without any ecosystem to work with.

In terms of more details, I'm not going to share those with you today. But as Anthony mentioned earlier, we will be actually having an Investor Day, where we hope to give a few more details in terms of the strategy for financial services overall. I hope you can join us for that.

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Operator

Our next question comes from Navin Killa with UBS.

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

Congrats on the strong results. I actually had a couple of questions. So firstly, I know you talked about the regional headquarter costs a little bit. I mean, the growth rate, I'm looking at it more from an absolute perspective rather than as a percentage of GMV, but the growth rates have come down quite a bit compared to 20-plus percent to, I think, high single digit this quarter.

Can you talk a little bit about some of the initiatives that you're taking to drive these growth rates lower? And is that how we should look at the trajectory of these costs going forward? And then secondly, within the delivery segment and trying to understand both the weakness in second quarter, kind of the lower guidance for also third quarter. I'm just trying to understand whether your dark store shutdowns could be a driver of that. So just trying to understand like food delivery versus grocery, would the trajectory be different? And within the food delivery, if I were to understand AOV versus number of orders, where are you seeing the pressure points in terms of thinking about, I guess, the growth outlook going forward?

Peter Oey - *Grab Holdings Limited - CFO*

Sure, Navin. So let me take the first one on regional cost first. So in terms of growth rates for regional costs, we're continuing to chop away at this, and both on an absolute as well as on a percentage of GMV. I outlined a few things that we're working through, including we've slowed down the pace of hiring, for an example.

We've continued to streamline certain functions within our corporate structure. We're continuing also to look at other non-headcount-related costs within the business also. There's been a ton of work there that's going on at the moment. So we're looking at all cost optimization opportunities in the business. And we still have some way to go on that front.

But we're making -- since the beginning of this year, we're making some good progress on that front. So you see -- you're going to see a continuing trend. As I mentioned earlier, in my prepared remarks, part of this is seeing also a sequential improvement in our EBITDA from Q2 onwards.

Around deliveries -- and actually, we saw strong deliveries growth. On a quarter-on-quarter, you -- there are some seasonality that you need to bake in also. We had Ramadan in the second quarter and also FX that kicked -- some FX headwinds that kicked in, in the second quarter also.

And also, as we're continuing to focus on the high-quality users on the top of the funnel also, that has some impact. So baking in all those elements, we are continuing to guide our deliveries business to -- for the second half to be moderated.

At the same time also, we're continuing to push the unit economics of that business and continuing -- and part of that, you saw that we brought forward by 2 quarters the deliveries path to profitability.

Now the dark store shutdown component is not reflected in the second quarter. A lot of that was done at the back end of the second quarter. So you'll see some of that coming through in the second half of this year.

Operator

And our last question comes from Thomas Chong with Jefferies.

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

I have one strategic question that wants to -- I guess, some more color about the cost management based upon the balance between growth and profitability. Given that we are seeing some kind of macro headwinds, we are focusing more on the profitability side and reducing the incentives.

However, as the macro recovers, how should we think about our strategies, looking into growth versus profitability and also our market share?

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

Thanks so much, Thomas. Really appreciate the question. When it comes to profitability versus growth, what we saw in the quarter is that we actually can manage to grow sustainably. We grew our top line while improving some of our key profitable metrics.

And Peter talked about it, right? GMV went up by 34%, revenues went up by 85% on a constant currency basis, while we improved EBITDA margins. So looking ahead, we're focused on increasing high-quality transactions so that we can drive growth sustainably.

What does this mean? We'll focus on profitable loyal customers who have higher net average order value transactions, who order with better unit economics and higher order frequencies. How do we do this? We're just doubling down on product innovation, to engage consumers and reduce our cost to serve.

I'll give you an example. If you rolled out a feature, we talked about this, that reduces wait time for drivers and merchants when they collect food, and we estimate this feature continues to deliver time-save of about 12 million minutes for our drivers compared to February.

Another -- just another quick one is we increased the number of batch orders in a quarter with a number of batch orders rising by 71% in the quarter compared to Q2 2021. So we are focused on driving growth in a sustainable, profitable manner, and we will do this via product innovations to reduce our cost to serve and increase engagement for our profitable users.

Operator

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

Peter Oey - *Grab Holdings Limited - CFO*

Sure. I thank you, everyone, for taking the time to join our call today. If you have any questions, just feel free to reach out to our Investor Relations team or visit our Investor Relations website. Thanks again, everyone. And we look forward to seeing you at our Investor Day, which is in September.

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

Thanks, everyone.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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