Affle (India) Limited

Q1 FY2022 Earnings Conference Call

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

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

Analyst: Mr. Rahul Jain – Dolat Capital Market Private Limited

This transcript has been edited to improve the readability

Moderator: Ladies and gentlemen, good day and welcome to the Affle (India) Limited Q1 FY2022 earnings conference call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jain from Dolat Capital. Thank you and over to you Sir!

Rahul Jain: Thank you Stanford. Good morning everyone. On behalf of Dolat Capital, we welcome you all to the Q1 FY2022 conference call of Affle (India) Limited. I take this opportunity to welcome the management of Affle (India) Limited, represented by Mr. Anuj Khanna Sohum, who is Chairman, Managing Director and CEO of the Company and Mr. Kapil Bhutani who is the Chief Financial and Operations Officer of the Company. Before we begin the discussion, I would like to remind you that some of the statements made in today's conference call maybe forward-looking in nature and may involve risks and uncertainties. Kindly refer to slide 21 of the company's earnings presentation for a detailed disclaimer. I will now handover the call to Mr. Anuj Khanna Sohum for his opening remarks. Over to you, Anuj.

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

We celebrated our 2nd IPO anniversary on August 8, 2021 and what better way to mark the anniversary than to conclude the quarter with our highest revenue, highest conversions, highest CPCU rate and highest cash on our balance sheet anchoring our continued focus on sustainable long term value creation. We achieved approximately 70% year-on-year revenue growth in Q1, comprehensively beating our Q1 CAGR growth trend of 41% which is well above the industry average growth trends.

We attained 152crore+ quarterly revenue and further strengthened our position in the ecosystem with enhanced platform and product capabilities across the global emerging markets. Our Affle2.0 strategy anchored on the 2Vs is enabling us to unlock innovative vernacular consumer experiences in partnership with mobile OEMs and operators across emerging markets and driving deeper verticalization for our advertisers across the E, F, G and H industry verticals. As a result, our Direct customers contribution has grown to 71% of our revenue in Q1 FY2022.

Our investments across products and platforms are performing well, contributing meaningfully to overall growth and enabling us to consistently stay ahead of the curve by fortifying our market position. Our scalable platforms have consistently delivered profitable outcomes, resulting in healthy margins and positive cash flow from operations.

The world is undergoing a paradigm shift with accelerated connected experiences redefining the digital priorities of the advertisers globally and specially across emerging markets. We are optimistic of the emerging industry trends and we continue to disrupt both traditional and digital marketing business models by leveraging artificial intelligence and machine learning capabilities to drive user engagements and conversions across the connected devices. We pride ourselves for our differentiated ROI-linked CPCU business model and to elucidate this, we also included the overview of three emerging markets case studies in our Earnings Presentation for India, Indonesia and Malaysia. We look forward to taking you through our platforms and case studies during the Analysts & Investors Day that we plan to organize later this year.

Affle delivered a broad-based growth coming from both India & International markets. Our CPCU business noted a strong momentum delivering 31.5 million user conversions during the quarter, an increase of 85.0% y-o-y at a healthy Rs.42 CPCU rate. Our India and International contribution balanced at about 50:50 each, will see a change in favour of International from the next quarter due to the consolidation of Jampp and our greater on-ground presence in LATAM. Our efforts towards enhancing our teams globally and building local on-ground presence in key international geographies are paying off well and will augment the next level of growth in the long-run.

Also in this quarter, while India faced a devastating second wave of Covid-19, the resilient nature of our business enabled our positive growth trajectory. I am extremely grateful to all the Afflers who not only ensured continuity of growth business plans but also helped the company provide support to local communities during such times of crisis.

Affle is committed to nurturing a culture that drives innovation, thought leadership and collective growth. Keeping with our trend of recognitions & accolades, Affle which is already a 'Great Place to Work' certified, also received a special Badge of Honour of - **"Commitment To Being a Great Place to Work".**

We are focused on our strategic goals by executing on our long-term priorities and investing wisely. We are also proactively adopting ESG to deliver all-round sustainable growth to all our stakeholders. With that, I now handover this discussion to our CFO, Kapil Bhutani to discuss the financials. Thank you and over to you, Kapil!

Kapil Bhutani: Thank you Anuj. Wishing everyone a good day and hope all of you are keeping safe and well.

I would like to thank our investors for supporting the company during the QIP. Our strong cash flows and balance sheet with highest cash balances as of date will ensure that the company continues to invest to drive long-term sustainable growth through innovation, market expansion and consolidation.

In Q1 FY2022, the Company reported Revenue from Operations of Rs. 1,525 million, a growth of 69.8% year-on-year. Our EBITDA for the quarter stood at Rs. 351 million, an increase of 56.0% year-on-year. In terms of Opex, Inventory and Data cost was at 58.0% of Revenue from Operations, in line with the previous annual trend.

You would have noticed that our Employee cost sequentially increased by 14.5%. This trend continues from the past few quarters as we are enhancing our teams to deepen our access across the global emerging markets.

We made additional investments during this quarter in our strategic minority investment, which continues to do well and we recorded gain on fair valuation of our investments during the quarter.

To provide clarity on our business operations, we have Normalized Profit After Tax for the one-time items, in our Earnings Presentation uploaded on the Stock Exchanges. Our Profit After Tax for the quarter stood at Rs. 357 million, a year-on-year increase of 90.3%. Normalized Profit After Tax after adjusting for the gain on investments was Rs. 295 million, an increase of 57.2% year-on-year.

We remain focused on working capital management and even during the second-wave of Covid in India, our collection efforts were resilient. Our cash flow from operations was Rs. 396 million and the Operating Cash Flows-to-PAT Ratio was 134.2%. This shows the quality of our customers and the robustness of our operations.

With this, I end our presentation. Let us please open the floor for Questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Congratulations on a strong quarter and touching the record CPCU rate & conversions. Could you enlighten us on how our business is shaping on dimensions such as a change in privacy policy and an increasing shift of digital media budget? Also, is there any specific vertical within the E-F-G-H category that is driving our momentum and the pricing trend both in terms of our CPCU and the inventory cost across key markets?

Anuj Khanna Sohum: Thank you for your questions. Our privacy policy has been mentioned in the Jampp specific investor call also and we had a good discussion on the same. We see this as a long-term trend, which has already got some history to it. The personal data protection act in Singapore or GDPR in Europe has been around for several years. These regulations provide the consumers with an opt-in and opt-out mechanism at any point in time, which the digital ecosystem must honor and comply with it from regulatory requirements perspective. When we further see the privacy policies, their impact and what is happening on the larger internet-specific ecosystems - let's say iOS, Android, browser and on the cookies. First and foremost, we need to look at the fundamentals of the business. The fundamentals are like - the consumers are on the digital screen and the advertisers are comprehensively shifting their budget towards digital. The regulation says that all ecosystem players need to respect the consumers data and deal with it responsibly. They need to take consent, store it, share it properly and not misuse it. Thus, this is the overall framework within which Apple took a stance many years ago. Google also responded years later and but still has not done anything on the cookies yet. However, the ecosystem is responding to these larger trends. Affle's business is deeply insulated from any browser or cookies in browser-related issues as our business is not dependent on them. While our privacy policy is comprehensive and will cover it, but the investors need to know that Affle's business is deeply anchored on the in-app & on-device ecosystem and on emerging markets where the consumers are decisively using android as their platform of choice. Therefore, iOS impact on emerging markets is minuscule. So overall Affle's business is deeply anchored on the on-device and the in-app ecosystem. The on-device ecosystem works in partnership with OEMs & carriers and there is a fair amount of control with the OEMs & carriers, beyond just accepting a standard version of android. OEMs and carriers have control over the version of OS, the experience and what happens on the device. We are deeply partnered with operators and OEMs around the world to ensure we have a shared influence on the ecosystem play and our strong position there.

We are also looking at the android ecosystem closely and how Google has responded to the cookies, which has been an issue for many years. We know that the cookies on android or Google ecosystems will have some variation in 2023 or beyond. What is going to happen to the devices? What is already happening on iOS? Apple rolled out certain changes that require clear consent from the consumer on iOS devices and in the digital ecosystem, most of the larger companies that have reported results have done phenomenally well. They are all anchored in a market like North America where iOS contribution is almost 50% of the total market share. Therefore, the digital spends of the advertisers continue to grow in developed markets as well as in emerging markets, irrespective of the need for greater consent. Affle's overall position and outlook is that every single jurisdiction in the world and digital platform will need to comply with privacy regulations. We have already got our platform credited at the Singapore standard with respect to the Personal Data Protection Act, Singapore and other aspects and are ready for these regulations to come across emerging markets like India, Indonesia, Africa, and LATAM markets. All of these jurisdictions in the next 3-4 years will have some regulatory policy and/or opting mechanisms on iOS and android. However, the fundamentals of business are like: The consumers have a choice of opting-in, take ads and enjoy the app/service for free or reject and be willing to pay. The balance of trends would lie in favor of a lot of consumers especially the youth as well as rural consumers who will continue to fuel the next billion devices and in my view, they will necessarily go for opting in. The trend will simply see the advertisers and consumers going for digital advertising and provide the necessary options and compliances. In terms of digital budget shifts, the consumers are married to their connected digital devices. The advertisers will need to shift at least 50% of their total ad spends on digital devices across emerging markets and we will see a continuous CAGR growth in digital advertising spends.

In terms of our focus on which vertical will deliver better growth, our top 10 resilient verticals across the E, F, G, and H category on which Affle has anchored over 90% of the business are seeing consistent growth. Large or small advertisers in these industry verticals are adopting digital much faster than what was seen previously and that is reflected in our growth. The advertisers want more and are bringing in more budgets. The innovations that we are delivering are not just new online conversions but repeat online conversations also. We are also seeing offline conversations and some of the case studies that have been mentioned in our recent earnings presentation will give you some flavour of what is happening and where it is headed.

In terms of achieving Rs. 42 CPCU, which is our highest and is quite comforting given that volumes are growing. We got record numbers of conversions that are notionally higher, but still important to sustain Rs.42 CPCU. As we expand our business more in the international markets and make certain verticals focused impact on developed markets, the CPCU rate will see a positive upward lift progressively due to market dynamics and mix. We are in a value-driven business and not a cost-plus business model. We look at ROI-linked value creation for the advertisers and are fundamentally adding value to our customers. Therefore, we command a fair share of that back. As volumes continue to grow, we will keep pushing our ability to extract higher CPCU rates from the advertisers. I am bullish about the overall trend, sustainability of our growth and the bottom-line performance over the long term.

Rahul Jain: Thanks. The CPCU will increase due to the higher international exposure. Will it be applicable to Jampp integration as well?

Anuj Khanna Sohum: Absolutely. Jampp is largely present in LATAM and America across certain key industry verticals. Our platform would comprehensively enhance Jampp's capability to go for deeper funnel conversions and ROI-linked business models. This will not only help improve the CPCU rate but Jampp's margins & profitability as well, over time. As we continue to do so, and as already done with Appnext and Mediasmart, which includes not just acquiring but fundamentally adding value to these platforms/businesses at an operational level, focusing on the bottom-line and margin performance. Our organization is deeply focused, we will continue to negotiate and fight not only for growth but also for defending margins and delivering cash flow positive performance as can been seen consistently. Therefore, this is what will impact the lives of Jampp and we will see great outcomes in the current financial year itself.

Rahul Jain: I appreciate that.

Moderator: Thank you. The next question is from the line of Mohan Kumar from JM Financial. Please go ahead.

Mohan Kumar: Congrats on a great set of numbers. My question is threefold. Firstly, as we had a strong Q1, what is the organic growth rate that we can expect for this year? Will Jampp have a better run rate than they had reported last year ? The final question is on connected TV apps, we have signed a number of clients over the last couple of months and with Jampp giving us in-roads into the US where connected TV is a bigger ecosystem. Can we expect a larger growth rate over that over the next year?

Anuj Khanna Sohum: Great questions. Indeed, Q1 was a fantastic quarter for us. In our quarterly organic growth trends, Q3 is generally the peak of our performance in any given financial year followed by Q2 and then Q1. Q4 is somewhere between Q2 or Q1. Thus overall within this year, we should see healthy organic growth without Jampp. With Jampp getting added, first and foremost we will look at the unit economics of Jampp, next at what CPCU rate can they sell, what kind of conversion can we drive, extracting higher value on unit economics and turning Jampp fundamentally profitable at each unit economic assessment. Hence, then pressing the accelerator for growth because as an organization, we are looking for all-around well-balanced growth, where we drive not just revenue growth but also sensible bottom-line performance. This is how a strategic execution path will flow. We aim to grow Jampp better than what they did last year on top-line as well as improve the bottom line substantially. Also, some guidance was given on the same in our Jampp specific call last time, mentioning our ambition and roadmap on this. With respect to the Connected TV, it is our organic investment into the connected TV product as we completed the market feasibility in partnership with certain customers and campaigns to ensure it is already revenue-generating. Thus, we can run it profitably and in the emerging markets where Connected TV is still at a nascent stage currently. We can safely be mentioned as the thought leaders, first movers in bringing it for the advertisers, partners, and the ecosystem. Our focus will continue to be on Connected TV across emerging markets because that has always been our first execution ground. Since we are emerging markets-focused, we will give it some time on when to take these new initiatives on to Jampp. Let us first ensure the core business of Jampp is upgraded with the Affle2.0 strategy on verticalization, going deeper on vernacular, operator OEMs, verticalizing it to move into CPCU business and the margin profile going. Once we solve and put Jampp on that growth trend, we could also incrementally either add Jampp or our on-ground presence in the developed markets for the connected TV. First, let us build Connected TV success in emerging markets as part of our strategy. That is how we are executing because this is our home ground and we are strong here.

Mohan Kumar: Thanks a lot. Some follow-up questions. Since you mentioned that cash on the books is the highest it has ever been, do we still have some proceeds left from the QIP? Can we expect an announcement of a deal over the next quarter or a sizeable acquisition in the near term? We have been reading a lot about the Indus OS battle that has phased out and request some clarity on where are we on Indus OS?

Anuj Khanna Sohum: Having a strong balance sheet is important. It builds the confidence of investors and the team. Looking at the history of our company, all our investments were largely funded through internally accrued cash flows and I am proud of the discipline with which the organization has executed the same. Just because we have cash from QIB, there should be no added pressure to go ahead and deploy it. The reason why we did the QIP was, we already knew that Jampp was baking up and it would be useful as the timing was perfect. QIP was raised in the first week of May and the Jampp acquisition signing of the agreement was announced on June 9, 2021. Thus, we raised money just in time and deployed it efficiently in a sensibly balanced deal. Is there any other deal that will come? Certainly. Is there any time horizon this financial year or next financial year? We will wait and see, but we want you to know that calibrated strategic transactions are done carefully. We are deploying this money as if it is generated through internal accruals and cash flows. We are careful of how we deploy any investments whether internally or externally in organic acquisition. With respect to Indus OS, let us be clear that it was Affle (India) Limited's call to fully exit its position from Indus OS and therefore, it carries zero risks concerning any legal tussles going on. Any battles that are being pursued are strictly being done by the promoter group companies i.e. Affle Global Pte. Ltd. I am not authorized to speak on that. Indus OS could have scripted a different story but it is what it is and Affle is going to be tough. We will continue to focus on our business and let Affle Global Pte. Ltd. handle and let the course of the laws of the land decide where it falls eventually. It is sufficient to say I am quite happy with where things are overall.

Mohan Kumar: Congrats on a great set of numbers and all the best for future quarters. Thanks a lot.

Kapil Bhutani: Just to clarify on one of your questions. There is no revenue from Jampp recorded in this quarter. Jampp consolidation will happen from July 1, 2021. The question asked somewhat made sense as though we have included one month of Jampp in our results but there is no Jampp inclusion in our current quarter results.

Mohan Kumar: Got it. We closed the acquisition at the end of June and we got one month to get some clarity on how Jampp will playout for the rest of the year. That is why I asked for the full year visibility. Thanks for the clarity. All the best!

Moderator: Thank you. The next question is from the line of Vikas Mantri from Moonshot Ventures. Please go ahead.

Vikas Mantri: Good morning. Thanks Anuj, for a great set of numbers and congratulations to your team on delivering a consistently good outcome. A small question on what is the churn rate of our customers?

Anuj Khanna Sohum: Let us answer that with two lenses. Affle has an ROI-linked CPCU business model which means we work with customers and campaigns with a clear disclaimer to drive their campaign to the extent, healthy conversions with consumers are seen. If any advertisement campaigns are on board and Affle keeps advertising them but the consumers are not getting converted for that particular advertiser, Affle would go back to the advertiser and can refuse to run their business as there aren't enough conversions with consumers happening. As we are a consumer platform company, we have a wide base of access and reach to the consumers. The advertisers whose campaigns are performing well can see ROI linkage. Therefore, there is an extremely high recurrence and retention rate. Having said that, we do not promise any customer minimum conversions on a recurrent basis because of the nature of our business model. We go for driving the campaign and see how the consumers convert, respond and optimize for maximizing it but there is no minimum commitment with an advertiser. The advertisers who have been working with us multi-years and Q-o-Q have benefited from the ROIs they generate by the conversions we drive. We see a strong retention trend. We did not give any specific numbers but this time we had given an important trend which is a mega trend in our industry. The trend which is important to us and we monitor it closely is related to the direct customer's growth powered on the E-F-G-H categories. This means that the number of advertisers who are working directly with Affle and not through other intermediaries or agencies, whose first-party data we are receiving contributes about 71% of our revenue. This used to be about 57% in FY2020. Over the last two and a half years, a systematic shift is seen where we can work directly with our advertisers. The trend has established more during the COVID times where the advertisers directly work with our platforms. It is a healthy trend and should give you an idea about the quality of the customers. Also, the cash flows should indicate that we are largely collecting a significant amount of our profits in cash. Thus, it is a good quality of business overall.

Vikas Mantri: Can you provide the retention number?

Anuj Khanna Sohum: Let me work with the approval of our board and see when do we start revealing it consistently with respect to customer retention and cohorts. At the moment, we are where we are and I am trying to answer so one can derive comfort from the numbers that are already reported.

Vikas Mantri: Thanks Anuj for making such a great company from India. The last question is that how many of our customers are VC funded and others are normal?

Anuj Khanna Sohum: This is a great question. I can give qualitative insight. Mostly, we are working with large enterprises and with a long chain of customers, but Affle operates with a comprehensive risk management framework. We do not take deep exposure with customers who are dependent on the next round of funding. Most of our customers are larger firms, who form a significant part of our revenue. Let us say that these companies are those that will still be around for the next five years. Thus, we have a safe profile of customers. Before we take bigger business or volume and the growth from any customer, a risk assessment is done on the creditworthiness of that customer. One can be assured that when Affle reports its revenue, it does it with the lens of collecting.

Vikas Mantri: Thanks a lot Anuj for doing great work and listing so early. We are beneficiaries of that. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rishit Parikh from Nomura. Please go ahead.

Rishit Parikh: Congratulations on good numbers. Few questions. One is on the Appnext ecosystem, the acquisition of DiscoverTech and investment in Bobble AI. Could you please help us understand what is happening in those areas? When can we expect traction from these acquisitions? Also, any color on monetization strategy would be helpful? I have follow-ups too.

Anuj Khanna Sohum: When we look overall at Affle's business, I made two very distinct points and would like to revisit them. One was on-device engagements with consumers as part of our customer platform. What does on-device engagement mean? It means that we work with OEMs and operators to make sure that our software, ads, content and recommendations to consumers can be deeply integrated into the on-device experience of the user at multiple touchpoints across the journey of the consumer. This is done even before the consumer has launched a specific app installed by them and used on their devices. The second part of the ecosystem is called the in-app ecosystem. The in-app ecosystem is when we reach and engage with the customers while they use an app on their device. This means that we now need to work with the app developers through ad exchanges, programmatic traffic or premium app developers through direct integration of our SDKs or API server to server integration. We have all the technologies to work on the in-app ecosystem. Both of these ecosystems are closely linked as the same consumer is around the same device and it is about a consumer's journey. The consumer opens the device, navigates through it, finds an app, uses it and closes that app. The chain starts again by going back on the device and using another app or some other folder. As the consumer journey is a natural interconnect between on-device experience and in-app experience and further back to on-device experience and the in-app experience. Within our plan in the Appnext ecosystem, we are focused on the OEMs, handset manufactures and emerging markets. We work with them to integrate our technology at various points on the device. The monetization strategy for both these ecosystems is similar. As far as the advertiser is concerned, they are sold ROI linked conversions. It does not matter to the advertiser whether the conversion is happening on the device or any other touchpoint. As long as we deliver a conversion which necessarily happens within the app of the advertiser and we earn our revenue. Monetization strategy is common but our reaching out to the consumer's strategy either on the device or in-app and it is blended perfectly. That is where our strategic differentiation lies. The question on acquisition and investment where DiscoverTech is a small acquisition we did in January 2021 and Bobble AI is a minority investment. We have doubled down on Bobble AI in the last quarter at the same time we had invested in the acquisition of Jampp. Both of these are strategic and we are seeing a great momentum. We have exclusive monetization capabilities through our platform on Bobble AI and are increasingly seeing greater monetization happening there. While DiscoverTech is small but is already seeing the impact as we had launched a global OOBE platform product in January 2021. It was done before the completion of the DiscoverTech acquisition. Thus, these are our growth variants and I am extremely bullish about them. We expect to beat the industry average growth progressively and consistently with all of these investments and products which have already proven to generate revenue. We have to consistently scale it one step at a time.

Rishit Parikh: Do we have any revenue numbers from these investments or it is largely something which may come, let us say in Q2 to Q4?

Anuj Khanna Sohum: The numbers are currently not significant. When they will become significant, we will update them. Overall, all these platforms are seeing great adoption in the ecosystem with partners. Most importantly, when compared with companies like

Digital Turbine, Iron Source, or any private companies in this space, Affle can stand tall and vouch that our products and platforms address the end-to-end consumer platform and the consumer's journey on the device as well as in-app like no other platform. We are deeply focused on emerging markets while none of these companies are anchored on the emerging markets. Affle has an extremely strong moat and competitive advantage on these products and platforms for emerging markets.

Rishit Parikh: A question on the privacy policy. Wanted to understand two parts to that story. Firstly, do you foresee these investments shifting towards areas where they have got first-party data? Secondly, when we look at one of the largest players in the US in the ad tech space, they have talked about investing in creating their own UID. We know that the risk is not as large in the android ecosystem as the iOS ecosystem but are we hedging our best through creating an alternative mechanism in case Google adopts something like that. Shall we play at it on a much larger scale?

Anuj Khanna Sohum: The best way to get first-party data is to directly connect with OEMs, operators and advertisers. We have a strong footing there as a company. As far as first-party data is concerned, our company is in a good position with respect to the first-party data, both with the advertisers and publishers. Most of the players get first-party data largely from the publisher side only and not from the advertisers. This is because they do not have a conversion business model. The biggest player referred by you is the Trade desk and they are launching their UID. A lot of their business is on PC and browser. Therefore, they had to do that. Even if some of the business is on mobile but a lot of the business is still mobile browser and cookie enabled. Hence, they are trying to de-risk from the cookie to have an ID that works together and the same applies to companies like Criteo. We have investment internally within our platform and have a unique identifier. Are we going to open it up for the ecosystem or are we going to do something bigger on that front? We will reserve the options for later. It would be sufficient to say in terms of first-party engagement with both advertisers and publishers, we are in good stead and we do not see budgets necessarily shifting in one direction or another. It will be broad based. Digital advertising spends are expected to grow in every single bucket of digital advertising that one can see globally.

Rishit Parikh: Last question. If we were to look at the employee expenses, we have expanded over the last 3-4 quarters. Since we are expanding our on-ground presence across several markets, when do we expect the benefits to start from those investments?

Anuj Khanna Sohum: The benefit is already there. When you start investing and putting people on the ground in different markets or on different products, it shows in the OPEX of the P&L and also those markets start delivering greater revenue over time. The second half of this financial year will support the organic growth trend by having people on the ground and see a consistent pattern in our performance. There should be a good balance between investing organically as well as consolidation opportunities on fair value and attractive valuation basis as and when the opportunity comes. The summary point is that all our investments are done in a carefully calibrated manner. They are done with a view not only for long-term return but the turnaround within the financial year too. Thus, there is a balance of immediate outcomes as well as long-term returns on a sustainable basis.

Rishit Parikh: Thank you and all the best.

Moderator: The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Thank you for taking my question. Congratulations on a great performance. My question is on the margin. Is the margin weakness purely attributable to the increase in employee count because even our CPCU rates have improved? Could you shed some light on the margin weakness on Q-o-Q and Y-o-Y basis?

Kapil Bhutani: The EBITDA margins are about 2% down from the previous quarter and approximately 1.5% margin impact can be attributed to the employee expense. While our Gross Profit margins were stable, the primary contributor is the increase in employee cost.

Mayank Babla: What would be the equilibrium level of margins going ahead. Any qualitative guidelines on the same?

Kapil Bhutani: We believe we should be able to sustain at the current level of margins i.e. about 25% EBITDA without adding inorganic numbers into it. Organically, we are comfortable with 25% of the EBITDA margin.

Mayank Babla: What is the latest employee count?

Kapil Bhutani: It is around 420 plus.

Anuj Khanna Sohum: I would like to mention that 420 plus is based on the full-time employees who are in the direct employment contract with the company. We also have certain functions where people are on contract or outsourced. It is not the full reflection of the workforce, but the employee count answer can be best given to this extent.

Mayank Babla: Last question to Anuj. It was mentioned in the Jampp call that we would transition from CPI to CPCU model. What is the process and challenges in these conversions?

Anuj Khanna Sohum: For Jampp, moving towards the CPCU business model would mean going to the advertisers and taking the ROI-linked deeper funnel KPIs. The advertisers then would share deeper first-party data with respect to conversions. Hence, it requires educating the entire team on its selling, positioning and certain integration on the cloud computing tech side. This includes receiving and processing that data effectively using the data science algorithms and optimizing it towards greater outcomes. Thus, linking it to Affle core platforms and cloud computing efficiencies with which Affle manages the higher volume of data and optimizations. These are the two broad things that need to be done. Once it is done, then next is about execution and optimization from one vertical to another vertical and one market to another market. Within this financial year, we expect to achieve that with Jampp. We have completed the acquisition on 1st July which means we have nine more months of this financial year to try and achieve and see good outcomes not only with respect to growth but on the bottom line as well. Jampp alone on a standalone basis would not be able to reach the kind of bottom-line performance what Affle would optimize for them. They will show clear signs of improvement now versus their previous trend.

Mayank Babla: Thank you so much Anuj and Kapil.

Moderator: Thank you. The next question is from the line of Rajamohan V., a professional investor. Please go ahead.

Rajamohan V: Congratulations on a great set of numbers as well as the consistent delivery of your promises. Wanted to understand the broad perspective of the open internet to walled gardens as it can be seen playing over the next 5 years. Are we seeing increased momentum in the open internet market when compared to walled gardens especially since the last 3 years of Apple's privacy policy? Also, if it is true that the open internet space is gaining momentum, and since you consistently talk about the huge 10 billion connected devices opportunity for Affle over the next 10 years. Do you see the existing digital cycle to have become more structurally pronounced especially after the pandemic? In this light, are we more confident of hitting 10 billion devices than when we had initially set this target?

Anuj Khanna Sohum: That is a great question. Thank you for keeping the emphasis on long-term strategy and bringing the 10 billion connected devices vision and goal of our company in line to the Affle2.0 strategy for this decade. Let us go with the definitions first, what is open internet and walled garden? The walled garden was a term that was coined with the respect to the value-added services where operators were saying that only if the product is on our WAP site or the operator's portal, only then the consumer can use/consume/purchase it or the billing will also be controlled by the operator. It was meant for a different sort of industry. The same terminology is now being applied by several people on Facebook, Google and Apple. The ecosystem sees them as closed or has more walled gardens. Some of the other companies that do not work with Google and Facebook or are trying to compete with them in their space, let us say – The TradeDesk, they coined the term open-internet and we support an open-internet. The way We see it is fundamentally from the perspective of where the consumer is focused. This business is not about the advertisers or where Google and Facebook are but it is really about where the consumer is. If the consumer spends time on a device or within apps or on certain apps which are now labeled as walled garden, it is the consumer's choice. Depending on where the consumer is spending more time, the advertising budget will eventually normalize over there. For example, If all of us decide to only go with a walled garden and only use Google and Facebook and nothing else. What will happen? The advertiser's budget will necessarily gravitate to the walled gardens only. If the consumers decide not to use Google or Facebook and instead plans to spend a lot of time on the open internet apps and experiences, the budget would then shift over there. From an emerging markets lens, Indian consumers' demographic profiles are either heavily youth-oriented or are increasingly rural audiences focused. They do not have any specific affinity towards let us say Facebook or Google per se. Though WhatsApp continues to remain important but things will change. In the next 5 years, something else could become more exciting for the consumers and their attention and time would shift. Affle takes a holistic stance on it. While most of our business comes from the open-internet side or the non-Google or Facebook side, we are also integrated with Google or Facebook and WhatsApp due to the consumers' presence there. Why should we stop going to the consumer if they are on walled gardens or the open-internet? We are a consumer platform and should not limit ourselves to target the consumer only when they are out of the walled garden. We will not stop targeting it when it goes into the walled garden. We are consumer-centric and will keep targeting the consumers right from the first time they buy a device till they change to another device. Also, wherever/whichever app they use on their device, Affle's platform strives to reach and convert the consumers on all of those touchpoints without having any negative bias in any way. This is how we run our business. In terms of how the trends are evolving and goals towards 10 billion connected devices, we have clear strategies on that front. One, we are going deeper into vernacular strategies, partnering and investing with OEMs and operators in that space. We have invested in moving beyond the mobile device to other connected devices such as Connected TV very early. Also, we are one of the first companies in India and other emerging markets to bring Connected TV as a proposition/product where advertisers can come and adapt together and stay ahead of the curve. Also, with our launched Household Sync ID internally which we did not do in a big fashion, the advertisers can come and target certain locations and households with our technology. This means there could be ten devices within the household, two laptops, five mobile devices and maybe two connected TVs over time and this could be a phenomenon where we target a certain household for a product proposition. We have invested in these capabilities organically and are confident that these will see a massive shift in the direction of reaching out to more connected devices by launching into other emerging markets like Africa & LATAM and strengthening presence in other emerging markets in the next five years. We will also try to see when we should enter China as this is all lined up towards the 10 billion connected devices mark. In our earnings presentation, a 3rd party research number is quoted which mentions the coming of 6 billion new connected devices by 2025. My confidence is high and the commitment is strong towards achieving the Affle2.0 goal of reaching 10 billion devices over time.

Rajamohan V: Final question. On operative leverage, we have indicated a natural scope of improving CPCU through internationalization and developed market penetration. Will this create opportunities for operating leverage improvement? Want to understand operating leverage in your existing businesses which have been at about 25 – 26%, can we say that we have reached the maximum in operating leverage in our existing businesses or is there a scope to further improve it?

Anuj Khanna Sohum: Let me give you a sense quickly. The unit economics of our business is to make 100 dollars of revenue. We roughly invest about 60 dollars of that 100 dollars and fully expense out in inventory & data cost in our P&L. We want all the investors to know that a good part of the data which is actually an investment, but it is not reflected on the balance sheet and rather fully expensed out in P&L. But we consistently invest to have deeper vernacular verticals and platforms that aim for greater growth going forward. Thus, this approx. 60% is a consistent investment and after expensing out, about 40% plus is left. Within that, we charge all our operating expenses and taxes. We see a profit after tax in a range of about 19-

20%. Therefore, have we maximized the operating leverage for our organic business? The answer is no. As we continue to scale, you will see that the operating expenses may not necessarily grow as fast as the revenue growth organically and therefore, there will be a margin expansion. However, because of the acquisitions we have done for companies like Mediasmart, Appnext or the prior ones. All of them were not profitable at the time of acquisition and were at the verge of breakeven. They were not burning but were also not adding to our bottom-line. We acquired them at the appropriate valuation which was a good transaction for them and for us. Affle has consistently worked on turning them around on the unit economics one step at a time and making them profitable in year 1 and more profitable in year 2, to bring them to the same level of efficiency as Affle's core businesses. Even with these acquisitions, our PAT margin is consistently in line and appropriately balanced as the organic business margins were expanding while the inorganic was averaging it down. We see similar patterns with Jampp this year. Since Jampp is a bigger transaction, the mathematics is getting added up but if we were to take a 3-year view, we will bring every single business to the highest extraction level with respect to margin value creation. Any inorganic transaction that we map would add up and a new balance would be formed inching it up again to reach towards 25% EBITDA and higher.

Rajamohan V: Understood and thank you very much for your detailed answer.

Moderator: The next question is from the line of Ruchi Burde from BOB Capital. Please go ahead.

Ruchi Burde: Congratulation on a strong set of numbers. My question is about your direct customer business. Could you explain the factors that are driving this particular trend of elimination of ad agencies? A follow-up to that is will this trend manifest into more sales and marketing efforts for Affle?

Anuj Khanna Sohum: Great question. Looking at the positives of this trend set which are: having a direct integration with your customer, invoicing them directly, contracting them directly and collecting from them directly has huge advantages in itself. Agency business is a very important business and a different proposition. A lot of the large global companies are mandated to work with agencies. They have to use the agencies for all their advertising touchpoint. Therefore, the agencies are important partners for Affle. We are a neutral entity as far as this trend is concerned. We are receiving this trend with open arms as it comes in favor of digital direct advertisers wanting to work with tech platforms directly like Affle.

Also, we have been a beneficiary of the trend, but have we been the catalyst to make that trend happen? The answer is no. We continue to be best friends with the agency groups and would never create channel conflicts with them. We are not concerned if the advertiser is with the agency or not as we are neutral. When we work with the agencies, we treat them as our direct customers same as when we work with the end advertisers as direct customers. We respect that relationship just as well. Does that mean we have to invest more? In some cases yes, because when we work with agencies, there may be 10, 15 or 20 customer apps being promoted and when we work with each one of them directly, we get to contract differently. Nonetheless, the end campaign is for the advertiser and we mandate our team to ensure that the relationship is two-fold as some advertisers may work with agencies once they get bigger and some advertisers may not need an agency and can go direct. Thus, to make sure that the end relationship with the customer as well as the intermediary agencies is strong, we invest both ways. There is no dramatic change in the cost structure with respect to sales and account management for direct customers versus the agency-based indirect customers.

Ruchi Burde: Thank you and all the best.

Moderator: The next question is from the line of Onkar Ghugardare from Shree Consultancy. Please go ahead.

Onkar Ghugardare: Wanted to know the margin compression in the international business Q-o-Q. It was mentioned that it is due to the employee cost but there is a significant more than 50% drop in the international business Q-o-Q. Any reason for that?

Kapil Bhutani: International business is an aggregation of different geographies. Different geographies have a different margin span. As the cyclic effect of all those geographies happens, there is a certain amount of compression on the margin in certain geographies and that will improve over time.

Onkar Ghugardare: Is there too much change in the geographies mix Q-o-Q leading to this kind of margin compression or what is it like?

Kapil Bhutani: It is not only the cyclic effect but also certain campaigns that give higher margins or higher ROIs or lower margins. It is a combination of all. We believe them as fair numbers at the moment and we endeavor to increase the margins in the international markets. We should appreciate the fact that we are not fully grounded on our feet on international markets. There is a need to invest by giving away some margins in certain geographies and those investments are built into the margins as we try to expand in those geographies. We are better grounded in India and not so well in all International markets. The employee expense is being incurred in those markets to improve our geographical presence and the margins. The combined factors are to be taken forward.

Onkar Ghugardare: The current margins in this quarter are sustainable and which we will try to improve. Is that you mean, right?

Kapil Bhutani: These are sustainable margins and we look forward to expanding our market reach in the international market.

Anuj Khanna Sohum: As we increase our volume and scale in the international markets, greater efficiencies will come in. When we enter new markets or within existing markets to open a new vertical, we work with the advertisers and try to drive the conversion for those advertisers in new verticals and we need to invest. The data and inventory cost that we expense out every quarter has a good element of investment in that. About 10% of the total data and inventory cost is not because of its ability to drive conversion but invested to learn, optimize and deliver greater growth going forward. Thus, we have a good element of investment in the P&L itself, which is fully expensed out. As we expand to new verticals and geographies, we will still maintain an overall balance in terms of our business and not running the company for only maximizing the bottom-line. We are investing where the investments are well deserved and that will show over time. As we scale our business in more international geographies, we will see the margin profile moving back and greater operating leverage coming on a consolidated basis.

Onkar Ghugardare: One small clarification. Have we been talking with the exchanges regarding the ASM issue?

Kapil Bhutani: With regards to this, the exchange does not discuss ASM issues. They do provide full transparency on the ASM issue though we have reached out to the exchanges, their automated system plugs out the 8-10 parameters and works around with that parameters. We do not have full transparency on the ASM issues from the exchanges.

Onkar Ghugardare: Okay thanks a lot.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Anuj Khanna Sohum: Thank you everyone for joining today and for your detailed questions. I would like to conclude this meeting by stating that your company Affle is stronger, not just in terms of the financial outcomes of this quarter, but fundamentally and strategically with a long-term view. Also, we are much stronger on our product, platforms, people, balance sheet, cash position and all of it together including corporate governance. We have adopted the ESG proactively and taken all the efforts that are necessary to be a well-governed company and deliver all-around sustainable growth to all our stakeholders. Thank you for your time and I look forward to our next engagement.

Kapil Bhutani: Thanks everybody and stay safe.

Moderator: Thank you sir. Ladies and gentlemen, on behalf of Dolat Capital that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

*****end*****