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| **Company:** | hipages Group Holdings Limited |
| **Title:** | hipages Q2 FY21 Investor Briefing |
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**Start of Transcript**

Operator: Thank you for standing by, and welcome to the hipages Group Holdings Limited Q2 FY21 Investor Briefing. All participants are in a listen-only mode. There will be a presentation, followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Roby Sharon-Zipser, CEO. Please go ahead.

Roby Sharon-Zipser: Good morning, and thank you for joining us to discuss hipages’ Q2 FY21 results, which is our first as a public company. I’m Roby Sharon-Zipser, Co-founder and CEO of hipages. With me on the call is our Chief Financial and Operations Officer Melissa Fahey.

The December quarter was an exciting time for hipages, as we completed a successful listing on the ASX, which provides us with the right capital structure and financial flexibility to drive future growth. This quarter also marked a year since we shifted to a subscription-only model in November 2019. This has accelerated the transformation of our business model, with 94% of our revenue recurring in Q2, compared to only 88% in the same quarter last year.

We were pleased to see strong growth in subscription tradies and annualised ARPU, as new subscribers joined the platform at a higher price point, and existing subscribers upgraded to higher-priced tiers in order to claim more jobs.

Demand for tradies services remained strong as consumers increased their investment in home improvement, and COVID-19 accelerated online adoption.

The business performed ahead of expectations, with growth across all our key metrics in Q2 versus PCP, including an 18% increase in total revenue and 26% increase in recurring revenue.

We continued to invest in a number of marketing initiatives to build awareness of the hipages’ brand and value proposition, and reinforced our position as brand leader in the on-demand tradie economy.

We completed another successful season of *The Block* as key sponsors, and our brand awareness has more than doubled since July 2018 to 56%. This contributed to jobs growth of 13% in Q2, with jobs from unpaid channels increasing by 37% versus PCP, as we continued to reduce our reliance on pay channels. This marketing investment and increased brand awareness has resulted in further tradie acquisition and jobs growth as new consumers are attracted to our platform, fuelling a flywheel effect as the double-sided marketplace enables us to unlock more value per subscriber.

During the first half of FY21, we continued to execute on our strategic plan, expanding new job channels via our partnerships in the retail, government and real estate sectors, and progressing the roll out of our field service software solution as an evolution to a SaaS and platform model.

I’ll now handover to Melissa, to cover a couple of points in more detail.

Melissa Fahey: Thanks, Roby, and welcome everyone.

As Roby mentioned, hipages delivered a very strong revenue performance in Q2 as we continued to migrate to a subscription-only model, which requires our tradies to enter into six- and 12-month contracts, rather than pay on a transactional pay-per-lead basis.

Total revenue in Q2 of $13.9 million was 18% higher versus PCP, driven by recurring revenue growth of 26%. We achieved the strong growth across all our key revenue drivers, with subscription tradies increasing by 12%, and annualised ARPU by 31%.

Monthly recurring revenue, which is the amount of monthly cash revenue that hipages recognises from subscription-based agreements, increased to $4.6 million as at 31 December, up 31% on PCP.

MRR has accelerated over the past two years, from $3.1 million, as more tradies have subscribed to the platform, with a significant proportion ascending to higher price points.

As Roby mentioned, we had another great season on *The Block* which, together with other marketing initiatives, has enabled us to reduce our reliance on paid channels and improve the efficiency of our marketing spend.

One of the most pleasing aspects of our Q2 job growth was that it largely came from unpaid channels. In Q2, only 19% of total jobs on the platform were from paid channels, compared to 33% in Q2 of FY20, and over 55% a couple of years ago.

Turning now to our cash flow.

Operating receipts were $15 million for December quarter, compared to $12.7 million in Q2 of FY20. Also up 18% year-on-year.

For the quarter, net cash from operating activities of $2.6 million, excluding non-recurring IPO transaction costs of $4.3 million attributable to the secondary raise and interest costs of $600,000 associated with venture debt and convertible notes which were retired on IPO.

Including these one-off costs, net cash used in operations was $2.3 million.

H1, net cash from operating activities with an inflow of $6.7 million before these one-off costs.

I’ll now hand back to Roby.

Roby Sharon-Zipser: Thanks, Melissa. That concludes our formal remarks, and the operator can now open it up for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question.

Your first question comes from Piers Flanagan, with CLSA. Please go ahead.

Piers Flanagan: (CLSA, Analyst) Hi, Roby and Melissa. Thanks for your time this morning. Just a couple from me if I can?

Firstly, just on, I guess, ARPU and ascension. Are you able to give us a bit of a breakdown of what percentage of tradies now sit on the various tiers or packages?

Melissa Fahey: We don’t have that level of detail for today, but we will be addressing it in our H1 results.

Piers Flanagan: (CLSA, Analyst) Okay. Sure. Then just maybe thinking about having cycled through the first 12 months, how we should think about - how was churn over the December quarter, and how we should think about churn, now that you have cycled through that initial 12-month period post the revenue model change?

Melissa Fahey: Yeah. That’s something else that we’ll be addressing in H1, but I can say that in terms of our churn levels, they’ve been performing favourably as well. As you say, we are past the 12-month since we moved to that subscription-only model, and we’re pleased with the results as well.

As you know, that when our tradies renew, they do auto renew onto a 12-month contract as well. When they first start, they can subscribe to a six- or 12-month contract. At renewal, it’s an automated 12-month contract.

Piers Flanagan: (CLSA, Analyst) Okay. Sure. Then just on the jobs growth that you’ve had, are you able to give us any breakdown between new customers and repeat customers. Then, going forward and enter in a period without *The Block* on TV, is there any expectation that the marketing cost might have to increase, or is brand awareness now at a level where that might not necessarily be the case?

Roby Sharon-Zipser: The key part of the strategy for hipages is to continue to invest in the brands, and we have commitments in investments to continue that into the future. There’s probably some opportunity to expand on that as well, as you said, in the future.

Piers Flanagan: (CLSA, Analyst) Sure. Then, maybe just one final one from me, just in terms of seasonality. Any seasonality between quarters, historically, during the years?

Melissa Fahey: No. Because we’ve moved to a subscription-base model, we don’t experience seasonality as a result of that. That was one of the key reasons that we did move to the subscription-base model. We’re no longer exposed to that variability in our revenue flow.

Piers Flanagan: (CLSA, Analyst) Okay. Great. That’s all for me. Thanks, Roby. Thanks, Melissa.

Roby Sharon-Zipser: Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Ash Chandra, with Goldman Sachs. Please go ahead.

Ash Chandra: (Goldman Sachs, Analyst) Hi, thanks for taking the question, although most have already been answered. If I could just ask about the seasonality comment. I understand the seasonality comment from the perspective of the kind of revenue flow though the business, but is there any seasonality in terms of when tradies tend to sign up during the course of the year?

Roby Sharon-Zipser: In terms of the seasonality for tradies singing up over the course of the year, we do have a slowdown around the December Christmas period, which is pretty normal and expected, when most of the Australian economy goes on their summer holidays, but throughout the year it’s pretty consistent. There might be a slight slowdown in Easter as well, but marginal.

Ash Chandra: (Goldman Sachs, Analyst) Got it. Obviously, you’re experiencing a pretty good uplift in organic job lifting, and you’ve talked about that investment in marketing, beyond just the sponsorship of *The Block*. Is there anything in particular you would callout that has been an effective strategy for driving this because it does look like a very sharp improvement, even relative to what you were doing just six and 12 months ago?

Roby Sharon-Zipser: Yeah. The improvement has been continued presence in new audiences, particularly in TV, and that’s definitely making a difference. We’ll be looking to make further investments in that area in the future. That’s definitely an effective method. We currently are in market with some tests in Brisbane for further above-the-line-type initiatives to drive that branding home, for both consumers and tradies.

Ash Chandra: (Goldman Sachs, Analyst) Another aspect of what makes the marketplace work, is not just the job listings, but also the quality of the jobs. How have you found your capacity to ensure you’re getting the types of jobs that your tradies actually want, that do represent value for money from a tradie perspective as well as, obviously, getting jobs done that consumers would like done?

Roby Sharon-Zipser: Yeah. The reason what sets hipages apart, when you compare us to other options that trades might have for advertising, is that when a user comes into the platform to get a job done for their home, they would typically go through a series of questions. We would ask very specific things, like a description of the work that they need done. We ask them are they ready to be hired? We ask them for the size of the job. Those are things that you don’t really capture, say, in maybe a general search. It’s very hard to put those levels of questions in there. So we capture up to seven, sometimes 11 data points on a job that’s put through the platform. I think the trades should feel comfortable that we’re getting someone that’s actually really keen to get a job done. We do a really good job of that. We’ve doing that for many years. Of course, there’s always opportunity to improve that, and we continuously work on getting higher and better-quality leads, and targeted leads in the geographies and categories that our trades are after.

Ash Chandra: (Goldman Sachs, Analyst) Got it. I might just ask one last question, if that’s okay? That’s just on the field service software. Is that still on track for a broad release in this upcoming second half fiscal ’21 period?

Roby Sharon-Zipser: Yes. The field service software is part of the strategy for hipages to move into a platform and SaaS business, and provide more functionality to help our tradies help manage and run their businesses. We’re on track to deliver in market a product that we can commercialise in due course. That’s definitely on track.

Ash Chandra: (Goldman Sachs, Analyst) Okay. Thank you. I’ll jump back in the queue.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We’ll pause briefly to allow more questions to enter the queue.

Once again, to ask a question, please press star one on your telephone and wait for your name to be announced.

Your next question comes from [Behan O’Marco], with Ausbil. Please go ahead.

Behan O’Marco: (Ausbil, Analyst) Hi, guys. Just quickly from me, could you provide a little bit more detail, just high-level, on the tradie ARPU growth? Are you primarily seeing that from new subscribers on this subscription model, or an increase from old tradies in the old model moving across? Thanks.

Melissa Fahey: It’s really a combination of both. We are seeing new subscribers come onto the platform at a higher price point. We’re seeing our existing subscribers ascending to higher price points. We’re also seeing our transactional tradies moving through to the subscription product as well. But that said, our subscription ARPU has also increased year-on-year very well.

Behan O’Marco: (Ausbil, Analyst) Okay, thanks for that. That was all from me. Cheers.

Operator: Thank you. There are no further questions at this time. I’ll now hand back to Mr Sharon-Zipser for closing remarks.

Roby Sharon-Zipser: Thank you again for joining us today. We’re very pleased with the results. I’m looking forward to updating you next month when we release our first half results. Thank you.

Melissa Fahey: Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

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