PT GoTo Gojek Tokopedia 1Q23 Earnings Call Transcript

Corporate Participants

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Wei-Jye (Jacky) Lo *PT GoTo Gojek Tokopedia Tbk - Group CFO*
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Pang Vittayaamnuaykoon *Goldman Sachs*
Adrian Joezer *Mandiri Sekuritas*
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Ranjan Sharma *JPMorgan*
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Presentation

Reggy Susanto *PT GoTo Gojek Tokopedia Tbk - Head of Investor Relations*

Hello, everyone, this is Reggy Susanto, Head of Investor Relations and welcome to the PT GoTo Gojek Tokopedia First Quarter 2023 Earnings Conference Call. Please be advised that today’s conference is being recorded.

Joining us today from GoTo Group's senior management are Andre Soelistyo, President Director, Group CEO and Co-Founder; and Jacky Lo, Group CFO.

Following management's prepared remarks, we'll open up the call for questions. We would like to highlight that the information presented today has been prepared solely as results based on unaudited consolidated selected financial information for the three months ended March 31, 2023.

Furthermore, as a reminder, today's discussion may contain forward-looking statements about the Company's future business and financial performance. These comments are based on assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements, including as a result of the factors described in cautionary statements and risk factors included in the Company's earnings release and regulatory filings to the OJK and IDX, by which any forward-looking statements made during this call are qualified in their entirety.

This call also includes the discussion of certain non-Indonesian financial accounting standard measures such as gross revenues, contribution margin and adjusted EBITDA. We believe these measures can enhance investors' understanding of our business performance when used as a complement to Indonesian financial accounting standards disclosures.

During this earnings call, we will be going through our results of operations and earnings presentation, which can be found on our website. For more information and additional disclosures on our recent business and financial performance, please refer to our earnings press release and supplemental presentation, which can be found on our IR website. With that, I will turn the call over to Andre.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Thank you Reggy, and hello everyone and thank you for joining our call today. Last quarter I spoke about our focus on accelerating towards positive operating cash flow generation, and today I'm happy to report extensive progress on this front. In the first quarter of 2023, we reached a key milestone positive group contribution margin while adjusted EBITDA, our proxy for operating cash flow, improved 67% year on year and 49% quarter on quarter to negative IDR 1.6 trillion rupiah. This signals that we are halfway towards achieving positive adjusted EBITDA in Q4 of this year, as per our guidance. This progress is a testament to the single-minded focus of our management team and everyone at the company as we reduce our variable and fixed costs while growing our revenues as we drive transactional efficiency by focusing on high quality usage throughout our ecosystem.

For today, I'd first like to provide an update on our profitability journey, including how meaningful cost reductions are creating value for our organization. I will then provide some color on growth and how we are fine tuning our business so that it is prime for future ecosystem expansion. As I mentioned, Group contribution margin turned positive in this first quarter, in line with our guidance. Each of our core businesses is delivering healthier results and showing that they can be independently profitable. To dig a bit deeper into that, E-commerce turned CM positive in the first quarter of 2023, following the same trajectory as On Demand Services in the fourth quarter of 2022.

GoTo Financial also turned CM positive in Q1 of 2023. Although we expect fluctuations here as we continue to invest in this space over future quarters. As of Q1, we've also consolidated our logistic and fulfillment services, forming a fourth reporting segment, GoTo Logistics, which I will provide more details on in a few moments.

In the first quarter, we implemented our strategy by optimizing E-commerce C2C and B2C merchant commissions, while at the same time continuing to reduce our incentives and product marketing spend, resulting in a reduction in associated cost of 39% year over year. Despite these changes, our merchants stayed loyal to our platform, with the number of active merchants on the platform remaining stable. This demonstrates the value of our ecosystem and the merit of our value-added services bring to merchants.

With respect to fixed costs, which we have been progressively reducing since the second half of last year, we have so far reviewed and identified cost saving opportunities across more than 15,000 line items with the aim of creating a leaner, stronger foundation from which to grow.

And as a result of this combined efforts, we decreased recurring cash opex in Q1 by around 460 billion rupiah, or 17% quarter over quarter. With regard to people costs, which form around 60% of our recurring cash opex. The full effects of the headcount reduction we announced in November of 2022 resulted in around 210 billion rupiah of savings from our personnel cost base, or a 13% improvement from the previous quarter. Savings from the more recent reduction announced in March will be reflected from May onwards.

For non personnel costs, which form around 40% of our recurring cash opex in the first quarter, we have either cut various expense line items that are not fundamental to our core value proposition, or found ways to generate the same outcomes at the lower cost. One of the most significant areas of improvement is within our technology organization. Our engineering team has been continuously developing tools and processes that have allowed us to fundamentally streamline IT costs now and over the coming months and years. This has already started to show results, with a 19% quarter on quarter reduction in IT expenses in Q1 of this year.

Now turning to our product led growth strategy. As we outlined on our last call, our efficiency improvements will result in slower GTV and transaction growth. And we have seen this begin to happen in Q1. Slower growth is driven by the conscious decision we have made to weed out low quality, subsidy driven transactions as we calibrate our business for a future in which every user can be profitable.

Significant progress is being made as shown in the fact that revenue growth outpaced GTV growth, the number of high quality, profitable users remained stable in Q1 and constituted more than 70% of total users, despite adverse seasonality impact and the significant reduction in incentive. GTV for profitable users grew quarter on quarter, comprising more than 70% of our overall GTV in the first quarter, while contribution margin for profitable users also grew by around 5% quarter over quarter.

As we continue to reduce costs, future growth will be driven not by subsidies, but by the development of foundational products and services that lower our cost-to-serve and really add value to customers' lives as we position ourselves to take the full advantage of Indonesia's vast, fast-growing, total addressable market over the long term.

I've spoken previously about products such as Mode Hemat, which offer economical options to consumers we might otherwise not have reached. Early results have been promising with our Hemat offering, already contributing to mid to high single digit order penetration within our Transport and Food offerings in Indonesia as of the end of the first quarter, despite being launched only a few months ago. This gives us confidence that we're on the right track and there is much more to come, as much of our product innovation will be released later in the year, acting as a growth accelerant for our business over the coming quarters.

For Q1, there are two developments I'd like to touch on. Firstly, how we are investing in our supply chain to structurally reduce our costs and improve user experience via GoTo Logistics, and secondly, how we are building our lending business.

The scale of Indonesia, coupled with the breadth and complexity of our company mean we have always had a wide range of fulfillment and delivery solutions within our ecosystem. Tokopedia delivers to 99% of districts across the country providing a range of options from premium, instant, and same day offerings to regular lower cost deliveries. Tokpoedia also provides fulfillment services to third party merchants, which involves holding their inventories in our hubs and providing order management services.

And at the same time, Gojek provides dedicated same day and instant delivery services to E-commerce platforms, supporting both point-to-point as well hub-to-point delivery methods. Given this large and complex spectrum of activity, it makes sense for us to bring Tokopedia's fulfillment unit and Gojek's E-commerce same-day delivery unit under one segment called GoTo Logistics.

Doing this will enable us to look at logistics holistically, making it easier to identify opportunities to make our processes more efficient on a cross-platform basis. One of our key aims is to reduce E-commerce delivery costs for consumers, especially in Jakarta and other tier one cities through aggregation with our fulfillment centers at the core of hop and spoke distribution networks around the country, covering areas of dense demand. The overarching goal is to realize economies of scale, to drive down costs, while also improving speed and reliability of deliveries for buyers and merchants.

Part of the reason for creating GoTo Logistics is to make it easier to identify components of our fulfillment and delivery processes that are not core to our broader strategy. Such inefficiencies are evident in the GoTo Logistics' negative bottom line currently. The new structure provides us with a clear baseline from which to implement our strategy, making it easier for us to focus on recalibrating our operations in core geographical areas while streamlining ecosystem costs. Ultimately GoTo Logistics, represents a unique opportunity to leverage our large captive volumes, fulfillment footprint, and delivery capabilities to create a best-in-class, end-to-end service that will ultimately translate into economic savings that we can pass onto consumers to drive growth.

We're excited to say that early results have proven our GoTo Logistics thesis. With enhanced batching and routing capabilities, we're able to provide conventional next day delivery services at around 30% of lower costs compared with similar services provided by third-party logistics providers. We will continue to scale up this in-house delivery capability, making delivery affordability as a key part of our E-commerce value proposition.

Now turning to Lending. Consumer Lending drives the payment flexibility of our On-Demand Services and E-commerce platforms, which increases consumer loyalty and spend in our ecosystem, as well as driving platform monetization. For example, E-commerce consumers, on average, spend around 25% more after they first use GoPayLater Cicil based on observations on earlier borrowing cohorts. Given the multiplier effects that it brings to our ecosystem, we will accelerate Consumer Lending this year while being very prudent in managing risk. We have generated outstanding loans of around IDR 831 billion from our Consumer Lending business.

As of the first quarter of 2023, reflecting a growth rate of 40% quarter over quarter. Moreover, our data capabilities mean that we are able to continuously enhance our credit scoring model, which enables us to manage risk effectively. This results in a quality loan portfolio with average loans dispersed across all of our Consumer Lending products, generating positive contribution margin.

We will continue to strengthen our strategic partnership with Bang Jago as we work together to further develop GoTo's Consumer Lending value proposition. Before I hand the call over to Jacky, I'd like to reiterate that our fundamentals are showing strong improvement. As we advance towards profitability. We will continue to focus on high quality users and cost controls while prudently investing in products and infrastructure that support our long-term vision. This may result in slower GTV growth in Q2 as we calibrate for our higher quality usage. This trade-off is a calculated one as it supports our near-term goal of positive adjusted EBITDA in the fourth quarter, as well as our long-term goal of resiliency. We will focus on re-accelerating growth over future quarters.

I will now turn the call over to Jacky to review our group and business segment performance. Jacky, over to you.

Wei-Jye (Jacky) Lo ***PT GoTo Gojek Tokopedia Tbk - Group CFO***

Thank you, Andre. Good day everyone, and thank you for joining us on today's call. For the first quarter of 2023, our group GTV increased 6% year on year to IDR 149 trillion. Our overall take rate grew by 29 basis points and Group gross revenue was up IDR 750 billion, or 14% year on year, to IDR 6 trillion rupiah. As we indicated last quarter, slower GTV and transaction growth is expected throughout the first half of this year, as we accelerate our plans to reach profitability in the immediate term, while focusing on growing our high quality user base.

We hit positive group contribution margin in the first quarter, which is in line with our guidance group. Group contribution margin reached a level of 0.4% of GTV, reflecting an improvement of 224 basis points year on year. As Andre discussed, our leap to positive contribution margin was largely driven by a reduction in incentives and product marketing of 39%, reflecting total quarterly savings of IDR 2.6 trillion year on year.

Group adjusted EBITDA improved by 67% year on year and 49% quarter on quarter, to negative IDR 1.6 trillion or negative 1.1% of GTV, meaning we are on track to turn adjusted EBITDA positive in the fourth quarter and start generating positive operating cash flow shortly thereafter. We are confident we can get there without external funding. Our cash and cash equivalence of IDR 26.8 trillion at the end of the first quarter, along with IDR 3.15 trillion remaining in our 4.65 trillion credit facility, provides us with ample cushion.

Before moving on to segment highlights, I would like to go over the improvement we make to our segment disclosure, which provides greater visibility on our business structure. First is the introduction of the Logistics segment under GoTo Logistics, which Andre has spoken about. We have provided segment results for 2022 that have been aligned with the current segment presentation. These numbers are not significantly different for On-Demand Services and E-commerce when compared to previous presentations.

Secondly, we'll be reporting Segment adjusted EBITDA and Corporate costs for the first time starting this quarter. Again, we are providing 2022 numbers for comparison purposes that have been aligned with the current segment presentation. The reconciliation between segment loss from operations and segment adjusted EBITDA can be found in our earnings presentation on our website. In the first quarter of 2023, recurring cash Opex that sits at the Corporate level total of IDR 310 billion, or 14% of total Group recurring cash Opex. We allocated IDR 139 billion of such Corporate Costs to compute segment loss from operations and segment adjusted EBITDA for each of our operating segments.

With that, I'll now walk through each of our core segments

In On-Demand Services, our primary focus is on improving monetization, through the refinement of commissions and fees. In Transport, this translates into improving commission rates, while implementing tiered platform fees. This has resulted in gross revenues of IDR 3 trillion, an increase of 12% year on year, despite GTV declining to IDR 13.7 trillion - a decrease of 5% year on year - driven by heightened GTV for Food Deliveries during the Omicron lockdown period last year, as well as our profit-focused strategy to prioritize high-quality, rather than incentive-driven usage. We expect GTV to moderate further in Q2 as we continue to focus on this strategy.

Monetization improvements from our commission adjustments have also paid off. As mentioned, as of February, we increased the commission rate in Singapore from 10% to 15%, contributing to an overall take rate increase of 324 basis points year on year.

Going forward, we will continue scaling our profitable economy products alongside value-added and premium services, all of which accounted for 10% of Transport orders in the first quarter, up from 4.8% in the prior quarter and 3% in the first quarter of last year.

For Food Deliveries, our platform setup allows us to vary fees based on the individual consumer or merchant, as well as the purchasing occasion. Combining this with incentive and product marketing rationalization, we achieved a reduction in incentives and product marketing as a percentage of GTV of 347 basis points year on year, continuing the trend of improvements delivered throughout 2022. On a blended basis we reduced On Demand Services incentives and product marketing by 30% year on year, which is equivalent to around IDR 900 billion in quarterly savings.

As a result, our On-Demand Services segment improved its profitability in the first quarter with contribution margin reaching 3.8% of GTV, an 881 basis point improvement year on year. During the first quarter, Food Deliveries also turned contribution margin positive, showing the increasing health within our On-Demand Services business and the resilience of our high-quality users, even as offline options increased in the re-opened economy. This building block helped us to achieve adjusted EBITDA of negative 1.8% of GTV for On-Demand Services, an improvement of 976 basis points year on year.

Looking at E-Commerce, GTV moderated to IDR 63 trillion showing a year on year decline of 3.6%. If we take a step back, we can see the first quarter of 2022 is a challenging comparative as the rise of the Omicron variant propelled E-commerce tailwinds. GTV was also impacted by the deprioritization of Mitra Tokopedia, our non-core B2B marketplace offering, with the effects appearing in the first quarter. Excluding the impact from this business, Tokopedia GTV remained largely flat year on year despite challenging macroeconomic trends and significant rationalization on promotional spend.

We are making excellent progress in driving monetization while maintaining our sizable market share. Gross revenue was IDR 2.3 trillion, showing a year on year increase of 21%. E-commerce take rates improved by 72 basis points year on year and reached 3.6% of GTV in the first quarter. We continuously improved our merchant apps' functionalities, enabling merchants to get meaningful competitive insights and marketing tools to drive sales. This has allowed us to generate higher C2C and B2C commission rates starting in the first quarter of 2023. Our take rate from Advertising also continued to grow quarter on quarter following the implementation of dynamic ad slots in search, which prioritize search relevance and local products, and therefore increase ad relevance and provide a better user experience. We will continue to introduce innovative technology that drives ads relevance and conversion rates to support continued monetization growth.

The E-commerce business turned contribution margin positive for the full quarter for the first time at 0.3% of GTV, improving by 223 basis points year on year. Even without the movement of the fulfillment unit into the Logistics segment, contribution margin would still have been positive in the quarter. This improvement is supported by a more personalized and targeted promotion algorithm, enabling us to reduce incentives and product marketing spend by 44% year on year - equivalent to IDR 1.2 trillion in quarterly savings.

Following the improvement in contribution margin and our disciplined approach to costs, adjusted EBITDA for E-commerce was negative 0.8% of GTV for the first quarter, improving by 232 basis points year on year.

We continue to focus on increasing the penetration of GoPay Later products on Tokopedia to drive payment flexibility. We're improving our user targeting and have created a machine-learning model for more effective, targeted communications and promotions to consumers who are most likely to benefit from PayLater services. Together with GoTo Logistics, we are driving initiatives to reduce the cost of logistics by leveraging our hub-and-spoke infrastructure and in-house delivery capability.

Regarding Financial Technology, GTV reached IDR 91.5 trillion in the first quarter, maintaining positive growth of 18% year on year. Gross revenue grew by 25% year on year, to IDR 424 billion, while contribution margin improved by 47 basis points as percentage of GTV year on year to IDR 19 billion. We are making strong progress toward profitability while maintaining growth with lower incentives per user. In fact, we improved incentives and product marketing by 54% year on year, with minimal revenue impact. adjusted EBITDA for Fintech was negative 0.6% of GTV in the first quarter, improving by 41 basis points year on year.

Aligned with our strategy to focus on existing high-quality growth, we have seen the quality of GoPay users improving, with average spend per user in the quarter increasing by more than 30% year on year.

All of this, combined with the expansion of the lending business discussed by Andre earlier, means GoTo Financial is well positioned as a foundational driver of future growth and profits. Having said that, we expect potential quarter to quarter fluctuation in margins as we continue to invest in this space.

On to GoTo Logistics. First quarter gross revenue for GoTo Logistics was IDR 580 billion, and adjusted EBITDA was negative IDR 156 billion, an improvement of 37% year on year. The revenue for this segment mainly includes revenue from our in-house next-day, same-day and instant delivery services, as well as revenue from our fulfillment businesses, encompassing handling and storage fees, and revenue from E-commerce enabler services. The costs for this segment mainly include fulfillment operations costs, charges from third-party delivery partners in our 4PL delivery model, and driver costs within in-house delivery.

We are investing in growing our last-mile delivery capability, enabling us to serve premium instant and same-day delivery and conventional delivery. This year, the focus will be to streamline and reconfigure key areas while making structural improvements within both the fulfillment and delivery units to create long term efficiency.

Fulfillment is still in the early stages and this year’s focus is on improving assortment mix and inventory turnover rate to enhance unit economics. We are keeping fulfillment capital expenditure low through leasing, as opposed to buying, or building, our own warehouses.

We will also scale our conventional next-day capability in a relatively asset-light manner, leveraging existing hub-and-spoke infrastructure as much as possible. This should allow us to continue reducing losses without significantly increasing capital expenditure for the rest of the year.

In closing, we would like to reiterate our guidance timeline in which we expect to reach positive adjusted EBITDA within the fourth quarter of 2023. And, for the full year 2023, we continue to project Group adjusted EBITDA to be between negative IDR 5.3 trillion and negative IDR 4.6 trillion.

With that, we would now like to open the call to your questions. Reggy, over to you.

Q&A Segment

Reggy Susanto ***PT GoTo Gojek Tokopedia Tbk - Head of Investor Relations***

Thank you Jacky. We will now start our Q&A section. Please use the raise hand function to ask your questions. Please wait a moment while we assemble our roster.

Our first question comes from the line, Pang from Goldman Sachs. Your line is now open. Please unmute your microphone to ask your questions.

Pang Vittayaamnuaykoon ***Goldman Sachs***

Thank you very much for the opportunity and good afternoon everyone. Just a quick question, a few questions from my side. Number one on the GMV outlook: in the statement you mentioned that you are looking for second quarter GMV to continue to trade lower. Can we have more color on how this will look like on a per segment basis? Which one will lead the weakness and which one will see a little bit of better momentum? How will this translate to your full year GMV outlook as well? That's question number one.

Question number two, related to E-commerce GMV that we see this quarter, can we have more color on how it looked like on an order and AOV basis, as you mentioned that this is based on your conscious decision to wean off low quality orders? Can we understand if the exercise is largely done or are we going to see more down trade coming in in the next few quarters as well? The increased intake rate that we see this quarter, where is it coming from and how much more can we expect this to go?

And lastly, update in terms of the competitive landscape as well, do you see any changes post yourself turning focus into profitability?

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Thanks Pang. This is Andre. Let me try to actually answer this one by one and I might need Jacky's help on some of this as well. On the first question on GMV outlook. I think generally I will start with saying that I think we need to acknowledge that through the combination of the following actually resulted in slower and moderated growth, which we have obviously guided the analysts and investors in the previous quarters.

So the first is acknowledging that macro situation does change and did change with a lot of the inflation adjustments, economies opening up, which means that there's actually more competition towards offline activities and also some of the price hikes that we've seen in various items, especially on the fuel price. That coupled with some of the adjustments with the market where a lot of the digital platforms also reduces incentive that created a little bit more, significantly more moderated growth from a market perspective. So to note on that as well, based on a lot of the data that we have from a competitive intelligence and market share perspective, despite this moderated growth in Q1, in many aspects of our product and use cases, we're still continuing to preserve our market positioning which means that in the market itself, it's a little bit slower, if you may, to begin with.

Now in addition to that, as mentioned during the scripted call, a lot of the decisions are also very conscious decisions because in order for us to actually really understand the way that we divide the user's perspective and user’s lens and our ability to actually see the trajectory of each of the users become profitable, we need to change a lot of the way we incentivize and subsidize and experiment with many different things to actually create an outcome that is positive but is much less in need for subsidy and incentive. And I think the results have been great. We spoke about the fact that our high quality users and profitable users continue to rise up, continue to actually transact more, and continue to become more and more profitable in the system, while the conscious decision is that there are many users in the system that actually stayed because of the over incentivization. And I think, with this kind of trajectory as mentioned, Q2 will continue to see moderated growth. But as mentioned as well, in the second half of the year with the various experiments and investments that we are doing on the different foundational products we do see, our ability to start accelerating growth again can actually be done through these kinds of activities.

One of the things that I am really, really obsessed about is really to reduce the cost to serve, so that a lot of our use cases can capture the segment of affordability. A lot of our investments in the past were to really focus on best-in-class operations, but sometimes it comes with obviously heavier operating costs as well.

Now we've seen that with the experiments and a lot of the market study that we have, it doesn't mean that lower user segments cannot be profitable or high quality. It means that we have to change the way that we organize so that the cost to serve can actually be manageable. A lot of this actually, resulted in a lot of investment in the Logistics piece because many of our transactions are delivered, either it's Food or E-commerce. So that's why GoTo Logistics with a lot of the things that we're doing - it is super, super important.

The other thing that we do is also to think about how we really build our overall app experience. So for the affordability segments, certain pieces of the capabilities, including machine learning models, a lot of the infrastructure and engineering platforms that we use might not need to be necessary in order to actually capture the affordability segments.

And some of these experiments have actually already been done in ODS as mentioned during the remarks earlier, we actually experimented with the Mode Hemat, Economical order in English, and the results are actually really, really strong. It actually has already captured about 10% of Transportation orders in Q1 of this year. And, you know, obviously this gives us confidence that we're on the right trajectory. I'm talking about it more from a qualitative perspective. But maybe Jacky, if you have any additional points, to add in terms of something more quantitative feel free to add.

Wei-Jye (Jacky) Lo *PT GoTo Gojek Tokopedia Tbk - Group CFO*

Pang, thank you for your questions. As mentioned on the last earnings call, we stopped providing guidance on the top line. But I think directionally we shared before the first half we will be focusing on profitability and building the foundational products. So there will be moderations and also because of the lapping last year's Omicron tailwind.

But I think in the second half we do expect it'll go back to the growth that we have seen in the past. As I said, we don't provide quantitative guidance in terms of top line. I hope that answers your questions, Pang.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

To your second question on E-commerce. So order and AOV. So AOV actually maintains its consistency. There's no significant fluctuation on a quarter over quarter basis. And the decision to actually without lower quality will continue to actually be done in parallel, Pang, while we are actually obviously investing in foundational capabilities to actually push for growth again. One of the things that's super, super key for our E-commerce product is definitely logistics. Because at the end of the day a lot of the costs, especially cost to subsidize, is really on subsidizing the delivery to actually entice more and more users to actually transact more online versus offline, and delivery cost is actually really, really important. And again there are actually two strategies that come with this.

First, as mentioned during the conversation around GoTo Logistics, the strength of Tokopedia today is really hyperlocal. Our coverage today is stronger in tier one and tier two cities. That also means that our ability to actually aggregate a lot of the orders and reduce the whole end-to-end supply chain, to reduce the overall delivery costs is actually going to be more prevalent for us versus other competitors who are more focused on tier two and three cities. And this is actually the main strategy that is very, very key because not only by doing that through our fulfillment and also last-mile delivery capabilities that we are continuing to invest in. Not only that we can actually reduce the cost by aggregation, but more importantly the speed and reliability will actually continue to be enhanced because of that as well.

And that's actually not only, again, saving new costs, but also increasing the service experience, and therefore there's actually multiple kinds of multiplier effects coming to this as well. But in general it doesn't mean that we're only focused on this last mile, hyperlocal, intra-city delivery.

We're working with our third-party logistic provider partners as well to continue to actually reduce the overall cost to deliver for even intra-city and intra-island, sorry, inter-city and inter-island as well. And this actually will be a key to unlock the market. The conviction comes because, again and again, if we look at the E-commerce penetration in Indonesia, it is still at the lower level compared to many, many comparable countries - China, India, and many others. But today it's really about the heavy lifting on what is really key in building that operational capability. And one of the key aspects in addition to many other things is on the logistics as mentioned.

So on the competitive landscape we have not seen many different changes compared to Q4. As you know, Shopee continues to focus on profitability. There's a social commerce player which continues to actually invest. But I think a lot of the kind of normalization in terms of their take rates and charging mechanics to merchants continues to rise up as well. So there's actually a little bit more normalization that we've seen on that. We haven't seen anything dramatic on the competitive front. Hopefully I answered your questions, but I know that you have lots of questions and hopefully we can actually cover that in greater details post earnings call.

Reggy Susanto ***PT GoTo Gojek Tokopedia Tbk - Head of Investor Relations***

Thank you, Pang. Our next question comes from the line, Adrian Joezer from Mandiri Sekuritas. Your line is now open. Please unmute your microphone to ask your questions.

Adrian Joezer ***Mandiri Sekuritas***

Hello. Yes. Thank you Reggy for the opportunity to ask questions and also thank you Andre and Jacky. Just two questions from me. The first one is actually with regards to if you can actually provide more color with regards to the E-commerce take rates incremental improvement to 3.6%, because I think it was mentioned in the call that if you exclude the deprioritization of Mitra Tokopedia, then the GTV for E-commerce should be roughly about flat year on year.

So, if I calculate, if I assume, that Mitra Tokopedia has a take rate of about 1-2%, that means your E-commerce take rate, if we assume that Mitra TokoPedia remains there, it would roughly be about 3.5%, which is only increasing by about 0.1% each point quarter on quarter. So if you can actually provide us with some color as regards to the GMV mix as we move into Q1 2023. So that's the first question.

And the second question, I'm interested to know more about the logistic cost per order in terms of first quarter 2023 for E-commerce and how this has been trending in terms of the quarterly trend for the past four quarters. And also related to that, if you can actually provide us any guidance on the CapEx for GoTo Logistics for 2023. Thank you.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Thanks Adrian. Jacky, do you mind answering the first question on take rates?

Wei-Jye (Jacky) Lo ***PT GoTo Gojek Tokopedia Tbk - Group CFO***

Sure. Yeah. Hey, Adrian, if you look at the take rate for E-commerce on a blended basis, it was 3.6%, right? So quarter on quarter, it went up about 40 basis points, and year on year is about 72 basis points.

If you just look at our commission rate for Physical Goods as a percentage of Physical Goods GTV, it actually went up about 60 basis points. Yeah. So that was from the C2C as well as B2C commission rate increase in the first quarter. And so as is continued to be roughly about 1% of the overall contribution of the tech rate. But overall the increase is coming from the commission side.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Hey, Adrian. Can I clarify a second question on what you mean with the logistics cost per order?

Adrian Joezer ***Mandiri Sekuritas***

Yes. Sorry. I mean you mentioned about the delivery cost being an important component to incentivize consumers to shop online rather than offline. So just wondering the average consumer's payment for the, I mean, maybe for the logistic cost, or you call it the, the last mile cost that the consumers pay on your platform.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

We'll get back to you on specifics, but just to give you some color, there's free delivery or what we call a Bebas Ongkir program. It's being called BO program in Tokopedia and I think in other platforms it has different names with similar constructs where consumers are able to actually, depending on different tiers of loyalty, to get quota on BO programs. There is a cap on minimum transactions and that needs to be met to actually get the quota. And there's also a maximum quota in terms of the BO program itself. Now despite that, it, it, it is actually a BO or a free delivery program, Adrian. But in reality the cost is borne by multiple kinds of stakeholders.

First is by the third party logistics providers which provide commission on the transaction. And then the second is actually most recently we decided to actually charge BO programs to the merchant as well. So for merchants who are participating, it is an option to actually participate, and when they participate, they are subject or they are part of the free delivery program. But on every transaction that actually consumes free delivery, there's actually additional around 3 to 4% extra commission to actually compensate against the spend. So net cost to us continues to dramatically reduce while the payment that the consumer makes from a quantum perspective, it does decrease because of the different quotas - that is actually either reduced or increased depending on the spending or the limit in terms of the spend. But to actually quantify that into exact rupiah, I need to get back to you.

Reggy Susanto ***PT GoTo Gojek Tokopedia Tbk - Head of Investor Relations***

Thank you, Adrian. Our next question comes from the line, Ari Jahja from Macquarie. Your line is now open. Please unmute your microphone to ask your questions.

Ari Jahja ***Macquarie***

Thanks Reggy for taking my question. And thanks Andre and Jacky for the updates. So my first question is in regards to the take rates for the ODS and FinTech. Looks like the take rates were weaker on a quarter on quarter basis, so just wondering if there's any opportunity to improve these further. Understand that for E-commerce, there are clearer drivers on the higher take rates. But just wanna get a better understanding on ODS and FinTech for this year. That's my first question. Thank you.

Wei-Jye (Jacky) Lo ***PT GoTo Gojek Tokopedia Tbk - Group CFO***

Hey Ari, when you say the take rate for ODS was weaker I think you are comparing to last quarter’s announced numbers, right? But if you recall, we actually moved the B2C delivery units to GoTo Logistics. So that has roughly about a 2.5% impact on the take rate for On-Demand Services.

So if you do an apple to apple comparison, by excluding this B2C delivery unit from the On-Demand Service take rate, quarter on quarter, actually the take rate improved I think by about 110 basis points, and year on year it is over 320 basis points. So we are still continuously improving the take rate.

Specifically, I think for both food and transport we have seen very strong quarter on quarter improvement in the take rate as we shared during the prepared remarks, some of the initiatives like the tier platform fees. We are doing dynamic pricing during peak hours for food delivery. All this helps to continue to drive the take rate for both transport and food.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Yeah, but I think Ari we also need to acknowledge that for On-Demand Service, as mentioned many, many quarters ago, the take rate kind of monetization have started since two, three years ago. So it has obviously gone to a level where it's comparable to the global standards of global peers as well. But as Jacky mentioned, it doesn't mean that the improvement is not there, but definitely will be smaller in terms of percentage compared to the E-commerce or the FinTech parts of the equation.

Now to your question on GTF. As mentioned, I think for Payments, because we cover both Consumer and Merchant Payments, the take rate is much more regulated by the central bank so that the capability, like the E-commerce or the On-Demand segment to actually continue to increase is not very much as clear as a lot of the take rate increase actually comes from two areas.

Number one is, as mentioned, the more that we actually convert and size up our loan book, converting the payments from just normal payments to consumer lending backed products such as GoPayLater Akhir Bulan or GoPayLater Cicil, the improvement on take rate will start to actually be meaningful. And as mentioned, I think this Q1 there's been quite a meaningful growth albeit it's still coming from a smaller base, but I think starting from second half we'll see more and more of a significant contribution that actually starts blending up the take rate of GTF in a more meaningful manner coming from the FinTech business. And then the second is actually on value-added services as well, because the opportunity to actually leverage payments to provide merchant value added services, such as targeted promotion, targeted advertising, is also existent for payments business.

And this is actually something that we're also working on at the same time. But I think the most meaningful kind of contribution will start to come in because of the size of growth that we've seen in our loan book for FinTech.

Reggy Susanto ***PT GoTo Gojek Tokopedia Tbk - Head of Investor Relations***

Thank you Ari, our next question comes from the line, Varun Ahuja from Credit Suisse. Your line is now open. Please unmute your microphone to ask your questions.

Varun Ahuja *Credit Suisse*

Yeah. Good evening management, and thanks for the opportunity. I've got three questions. First on the FinTech side, if I remember, you mentioned around IDR 837 billion was the loan book, which is around USD 56 million.

So is this largely a consumer loan book? And what is the plan to grow this? Because the loan book size obviously looks a little bit relatively lower compared to peers. Is there any plan to go big on merchant lending? Also, is it still going to be a consumer loan book that you're looking at?

So if you can elaborate with a little bit more color, how do you plan to grow through it? And whether the current 56 million is through your own balance sheet or you're still partnering with Bank Jago. So more details will be helpful.

Number two, if you look at your FinTech GTV both on a quarter on quarter basis, despite the decline in both On-Demand and E-commerce, it has grown strongly. It's showing that your payment processing or your offline side of GTV is doing relatively better. So what's the plan to monetize that better? Better in terms of you giving any color. How are you looking at that part of the business to contribute to the FinTech side? That’s number two. Yeah, I think that's about it.

Andre Soelistyo *PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder*

Thanks, Varun. On your first question, the loan book of 830 billion is only consumer. But we have actually a merchant lending product both in food and also Tokopedia that actually is quite sizable.

But this year, while merchant lending is actually a value proposition that we offer to our merchants, from a priority perspective we're focusing a lot on really expanding our consumer loan product, and to give you a perspective, there are three main products in consumer lending.

First is end-of-month payment or what we call PayLater Akhir Bulan. The second one is installment or PayLater Cicil, and the last one is what we call GoPay Pinjam, which is a cash loan product that we actually experimented with in the Gojek app, but it will actually expand into multi-apps as well for all users to actually utilize.

Yes it looks a little bit smaller compared to maybe some of the peers that you are benchmarking, but note that we just started our GoPayLater Cicil product in Tokopedia back in October of last year. So it's just been a few months of expanding the product itself.

And obviously as we progress and now we have a lot more confidence, and looking at the user conversion also the cohorts in terms of the loan repayment, we have much more confidence to actually push this across the board. Now I wanted to answer your second question, but it's also linked to the first one.

I think the opportunity for Consumer Lending doesn't stop just in the Gojek and Tokopedia apps. Because the penetration of the lending product in Tokopedia and Gojek is still relatively small compared to our payment volume or payment penetration itself. And it allows us to actually have large captive volumes that we can actually convert.

But the opportunity for our Consumer Lending is also on our offline and also online what we call open-loop merchants. As you know, we have Midtrans, which covers payment processing for online merchants such as Ikea.com, Uniqlo, and many others, and many E-commerce platforms and digital platforms as well.

But we also have offline capability to acquire payments for offline merchants. The products that we are building for consumer lending will eventually be able to be used for payments in offline and online merchants as well, which means that you can think about it like a credit card product. You can use your credit card product across merchants who accept it not, not just in a captive closed-loop platform. And this is actually a very important key and one of the key differentiators because we are a payment platform that is actually quite holistic. We are not just focused on becoming the wallet for closed loop, but our open loop or offline and online third-party merchants’ acceptance is also very high. And this is actually an opportunity for us to expand this even further in a significant way.

Reggy Susanto ***PT GoTo Gojek Tokopedia Tbk - Head of Investor Relations***

Thank you, Varun. Our next question comes from the line of Ranjan Sharma from JP Morgan. Your line is now open. Please unmute your microphone to ask your questions.

Ranjan Sharma ***JPMorgan***

Good evening and thank you for the presentation. Two questions from my side. Firstly, if I adjust for the Mitra Tokopedia GMV that you talked about, the GMV is still down 70% versus fourth quarter. I know there's going to be some seasonality, but it still feels like GMV is declining. So if you can just share more color around the nature of GMV, which GoTo has shedded. And secondly, if, let's say the GMV remains under pressure in the next few quarters and not just the second quarter, will it be possible for GoTo to increase E-commerce take rates? Thank you.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Jacky, can you actually maybe answer the question on the numbers first and then maybe I can give additional color on seasonality?

Wei-Jye (Jacky) Lo ***PT GoTo Gojek Tokopedia Tbk - Group CFO***

Yeah, sure. I think for E-commerce, we talk about how GTV was down about 3.6%, right? But if you exclude the impact from Mitra Tokopedia it was mostly flat year-on-year. So that was attributed to lapping last year's Omicron obviously. And also our decisions to focus on high quality users. So all this actually resulted in negative GTV growth. But if you strip out Mitra Tokopedia I think mostly it will be flat and we expect there will be continuous moderation in Q2 because of the continuous lapping from last year's Covid tailwind. And also our focus on profitability in the first half. But I think heading to the second half, we do expect they'll gradually recover in terms of top-line growth for E-commerce.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Just generally an additional data point, as mentioned, I think Q1 definitely from a seasonality perspective is weaker because Q4 is festive, combined with a lot of different holidays towards the end of the year. And obviously the impact on Hari Raya Idul Fitri happens in April. So this is actually going to be seen in Q2 instead of Q1. We also have to acknowledge that a lot of the changes we've made in terms of incentivization we made, did have a shock in the system.

And obviously, as discussed, there are users who are low quality, in our opinion, that actually got weed out of the system. And that resulted in some of the pressure that you mentioned, Rajan. But again, this is actually a conscious decision in a sense that without this we couldn't recalibrate the way that we actually optimize.

In the past because of the high competitiveness in the E-commerce platform, a lot of platforms tend to actually double, triple stack their subsidy offering. A user can actually get free delivery plus cash back, plus, something else, which is, which is definitely really, really heavy and it's not going to be able to create a positive unit economics product.

So a lot of these changes have been made and the market is also equally as rational. And therefore what we've seen in Q1 is also a bit of a shock in the system after a lot of the adjustments being made over the last few quarters by the multiple platforms as well.

But as mentioned, I think we are quite confident in being able to actually really focus on growing again, because now the levers are much clearer. The control on logistical cost is very important. It is very complex in execution, yes, but as the company needs to grow up, they couldn't rely on ethereal metrics anymore; this is the time to differentiate who can actually do it and who cannot. And that actually determines who is able to capture the growth going forward.

Now, to your question about the pressure and potential growth and so on and so forth. Is it possible to increase take rates? The answer is yes because of two reasons. Number one is, despite that, maybe transactional GTV is a little bit moderated, but I think the value of the C2C E-commerce platform is also becoming a discovery place. So a lot of merchants actually spend ads dollars to capture a lot of the intent to engage. That's how ads products became quite successful in our part of the equation; the volume of visits and also the throughput, the first funnel, continues to be strong and the session becomes more and more high quality, higher and better engaging in terms of the conversion rate as well.

And that's why ads revenues continue to actually generate higher and higher growth as well in our system. And this continues to be our investment. So one of the key values to increase in terms of day rate is on ads. But having said that, I also still believe that Indonesia, compared to many peers in different countries or from a C2C marketplace take rate, still remains to be on the lower side.

So yes, there is an opportunity. As mentioned, every year we see a lot of that opportunity and review whether we can actually do another one. So, you know, this obviously will be done on a year on year basis, and something that we will continue to actually explore and evaluate.

Reggy Susanto ***PT GoTo Gojek Tokopedia Tbk - Head of Investor Relations***

Thank you, Ranjan. Our last question comes from the line, Reena Verma Bashin from Deutsche Bank. Your line is now open. Please unmute your microphone to ask your questions.

Reena Verma Bhasin ***Deutsche Bank***

Thank you. Just a couple of quick questions. One is: Jacky mentioned that GMV growth should start to look better as we move beyond the second quarter. Is there any kind of basis to that and are you just talking in seasonal terms or are you talking year-on-year, please?

My second question is about your Corporate Costs. You know, just from the standpoint of you're having most of your operations in a single country, they just seem to be very, very high. And if you could comment on why such a large cost base seems justifiable.

The third question is on the spinoff of your segment into logistics as a separate one. You've talked about it in the fourth quarter and this quarter, but it's not clear to me what the rationale is. Aren't all companies in your space having the same kind of supply chain and what really is driving you to make a segment disclosure separately?

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Hi, Jacky. Can you probably take the first question?

Wei-Jye (Jacky) Lo ***PT GoTo Gojek Tokopedia Tbk - Group CFO***

Yeah, I'll take the first two questions and Andre, you can take the last one. So Reena, when we talk about the GMV or GTV recovery in the second half, it's more on a quarter-on-quarter sequential in that sense.

Like I said, we don't provide full-year top-line guidance right now or by quarter. But when I gave that comment, it's more on a sequential quarter-to-quarter improvement. And then on your comment on Corporate Costs, if you look at the actual cash Corporate Costs, it's about IDR 310 Billion. Out of all of our total cash opex, that's 14%. So from our perspective, that's actually quite low, given we are a public company as well. But obviously we'll continue to be very disciplined to identify additional savings opportunities. we have been consolidating all these different supporting functions as you know, and also we are leveraging the IT side to be more efficient. So hopefully that's going to give us some additional upside in terms of the cost optimization. But overall cash OPEX at the corporate level is only about 14% of the total.

Andre Soelistyo ***PT GoTo Gojek Tokopedia Tbk - President Director, CEO & Co-Founder***

Whenever we speak about it, it seems to be very high. Ideally, if you can provide more data points, what do you compare that against? Because I think a lot of the color is actually really important to really understand, because some of our peers who also reported Corporate Costs as Jacky mentioned in our side, is 14%. And by the way, that's not just people's costs, because there's actually multiple other costs including our professional fees, our payments to auditors, etc, rental of head office is included in that as well. So it's actually fully baked in, not just on personnel, but I think the 14% is compared to 70% of headquarter costs in some of our peers, so again, let's be very, very precise in the comparison so that we're not trying to debate on something that is much more subjective, if you may. But happy to follow up, maybe post earnings call on some of your observations here.

On the last question on GTL spinoff, well, the spinoff decision is clear. But the reason why it becomes a reporting is because of the auditor. It is by compliance that a certain segment that is above a certain percentage needs to be reported as a separate segment, and because of the size of the assets and the revenue,we have to disclose the earnings as its own separate segment.

Reggy Susanto ***PT GoTo Gojek Tokopedia Tbk - Head of Investor Relations***

Thank you Reena. With that, we have reached the end of the question and answer session, and we conclude our conference call for today. Thank you for participating. You may all disconnect.

About GoTo Group:

PT GoTo Gojek Tokopedia Tbk (GoTo Group, IDX: GOTO) is the largest digital ecosystem in Indonesia. GoTo's mission is to "empower progress" by offering technology infrastructure and solutions that help everyone to access and thrive in the digital economy. The GoTo ecosystem consists of on-demand services (mobility, food delivery, and logistics), e-commerce (third party marketplaces + official stores, instant commerce, interactive commerce, and rural commerce), and financial technology (payments, financial services, and technology solutions for merchants) through the Gojek, Tokopedia, and GoTo Financial platforms.

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