

Frontier Digital Ventures Ltd

Benefitting from the network effect

Frontier Digital Ventures Ltd (ASX:FDV) owns a portfolio of online marketplace companies in fast-growing, emerging economies and regions. Headquartered in Malaysia, the company owns stakes in 16 portfolio companies operating across 21 markets in Latin America, developing Asia, and the Middle East and North Africa (MENA). Frontier Digital Ventures listed on the ASX in August 2016, raising \$30m at \$0.50/share to give a market capitalisation at listing of \$108m. At that time the company owned from 30% to 76% economic interest in 15 companies, five of which it has subsequently exited. In CY2021, the company underwent a legal restructure along geographical lines to improve operational efficiencies, increase organic and inorganic growth opportunities and enhanced management culture and accountability. The businesses are now organised as FDV LATAM, FDV Asia and FDV MENA. FDV ended the half year with \$30.8m cash in hand, having last raised capital in December 2021 via a \$35m institutional placement at \$1.50/share, and a retail purchase plan which raised an additional \$18.9m. The capital raising allowed the company to acquire the remaining 73.7% it did not own in E24, giving it control of the leading general marketplace in Central America. Of its 16 portfolio companies, all are leading online marketplaces in their category. FDV is focused on leveraging the market leadership positions of the marketplaces to help facilitate transactions through the portals to unlock their long-term earnings potential.

Business model

Frontier Digital Ventures has taken a portfolio approach to investing in early-stage online marketplace opportunities in emerging economies. The company holds stakes in 16 operating companies, nine of which are focused on real estate, four on auto, and three on general classifieds which also include real estate and auto verticals. The company owns from 30% to 100% of these companies. FDV reports revenue and earnings based on its economic interest but provides a look-through on 100% basis to allow investors to see how the group is performing on a like-for-like basis. The group seeks to identify early-stage marketplace businesses and acquire economic interests in market leaders in property, auto and general classifieds, and provide patient capital, operational guidance and strategic oversight to the companies as they scale. Usually, FDV takes an initial, non-controlling interest in its portfolio companies to mitigate risk but will often increase its interest as the companies mature and FDV seeks to lock in future growth potential from its investments. In CY2021, FDV moved to 100% ownership of four of its more mature businesses and majority ownership of another.

Group EBITDA profit delivered in H1 CY22

In H1 FY22, nine of the operating companies were EBITDA positive compared with six the same time a year ago. As a group, FDV delivered a H1 FY22 EBITDA profit of \$1.835m, a \$2.23m turnaround on a year ago. Portfolio revenues, on a 100% share basis, were \$75.2m in H1 FY22, up 49.5% on the previous corresponding period, with Asia making the biggest contribution with \$48.3m in revenue. On an economic interest basis, portfolio revenues were \$41.7m, an increase of 72% on the pcp.

In a unique position in the Australian market

The portfolio approach taken by Frontier Digital Ventures provides unique exposure to marketplace businesses in fast growing emerging markets positions. Initially the Company operated more as an investment company however as it has increased ownership and control over its portfolio companies, it is transitioning towards an operator of marketplaces. On the ASX, online marketplace companies such as REA Group (ASX:REA), Carsales (ASX:CAR) or Domain Group (ASX:DMG) serve as comparables. While REA is larger in market capitalisation, its earnings history provides a useful example of how these businesses scale.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Group revenue ^A	Revenue (reported)	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj.* (c)	EV/Sales (x)
12/18a	41.7	12.6	(5.7)	(5.7)	(9.6)	(2.4)	8.2
12/19a	72.7	15.4	(3.7)	(1.5)	(4.1)	(0.6)	12.6
12/20a	63.1	20.8	(4.0)	(12.9)	(15.9)	(4.7)	21.7
12/21a	114.5	51.4	(6.0)	(15.1)	(19.5)	(4.4)	10.4

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items; ^AGroup revenue shows all investments at 100% ownership

Online Classifieds

9th September 2022

Share Details

ASX code	FDV
Share price (8-Sept)	\$0.81
Market capitalisation	\$296.7M
Shares on issue	366.3M
Net cash at 30-Jun-2022	\$30.8M
Free float	~80.7%

Share Performance (12 months)



Upside Case

- Exposure to early-stage, high-growth online marketplace in fast growing emerging markets
- Portfolio approach allows greater diversification
- 12 of 16 portfolio companies EBITDA positive

Downside Case

- Minority interests create complicated structure
- Still loss-making on a statutory basis, more funding may be needed
- Complicated from a reporting perspective

Catalysts

- Securing portfolio-wide operating profitability
- Profitable exits

Comparable Companies (Aust/NZ)

Carsales (ASX:CAR), Domain Group Holdings (ASX:DMG), REA Group (ASX:REA)

Board and Management

Anthony Klok	Ind. Non-Exec. Chair
Shaun Di Gregorio	CEO & Founder
Mark Licciardo	Ind. Non-Exec. Director
Frances Po	Ind. Non-Exec. Director

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FINANCIAL SERVICES GUIDE

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