Conference Call Transcript
Infracommerce (IFCM3)
3Q22 Results
November 11, 2022

Marcelo Korber:

Good afternoon, everyone. Thank you for joining us for Infracommerce's 3Q22 earnings conference call. Cole. I am Marcelo Korber, IR director at Infracommerce.

The results that we announced yesterday, the audio of this call and the slides that we will reference are available on our IR website.

Joining me today, as CEO and founder of the Company. Kai Schoppen, Rafael Quintas, our CFO, and Fabio Bortolotti, IR Vice-President and Internationalization Director.

After the presentation, we will be here for the Q&A session. Should any participant wish to pose a question, please use the chat box in the webcast platform.

Before I turn the call over to Kai, I would like to caution you regarding our forward-looking statements. Any matters discussed today that are not historical facts, particularly comments regarding the Company's future plans, objectives and expected performance, constitute forward-looking statements that are based on a range of assumptions that the Company believes are reasonable, but are subject to uncertainties and risks that are discussed in detail in our CVM filings. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions as they relate to future events and depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the Company and lead to results that differ materially in such forward-looking statements.

With that, I will turn the call over to Kai, who will comment on the main highlights of the quarter. Kai, you have the floor.

Kai Schoppen:

Thank you very much. Good afternoon, everyone. Before anything else, I would like to thank our team of more than 4,000 Infras that are very passionate in helping us creating this disruptive business model, which in my opinion, is revolutionizing the digitalization of the supply chain in Latin America.

We have closed the quarter very successfully once again. Our customer base is growing and we are very happy with the new clients coming into our base. We are very advanced in integrating the acquired companies, and our expansion strategy for Latin America is also working out really well.

On slide number five, I will give you a few numbers. As you can see in the highlights of the 3Q, we are on the right track. Once again, we have delivered very consistent results, both in GMV and revenue.

We have been showing strong growth, especially boosted by the evolution of our existing customer base. Our GMV grew by 85% in 3Q, contributing to the net revenue, which grew 104%, boosted by the increase in the take rate when compared to the same quarter last year.

A very important number is our organic growth, in addition to the growth that was created by the M&As. If we isolate the M&A effects, we have achieved an organic growth of 24%, which is around 10x higher than the e-commerce market in general. Year-to-date, our organic growth was 37%.

Another relevant highlight is the significant growth in our adjusted EBITDA. We have had a growth of 464% in our adjusted EBITDA year over year, especially because of the capture of synergies from our M&A and dilution of SG&A because of our growth. We will give you further details about this point later on. But due to the growth of our Company and with the synergy agenda well advanced, we are on our track to achieve our EBITDA target minus positive CAPEX in the near future.

We also want to highlight the TPV. We are reaching the level of R$1 billion per quarter, which proves that the product of our fintechs can be used as a cross-selling strategy in our ecosystem.

Moving on to slide number six, here you can see some of the brands that have joined us in Brazil and that are part of the 50 new contracts that were celebrated this quarter. In B2C, revenue grew by 148%, boosted by the same clients, together with the consolidation of the acquired companies.

In the B2B segment, we achieved a 65% growth. In this case, it was a completely organic growth, with expansion of the average take rate also contributing to that growth. Our churn continues to be little relevant, as you can see on the right hand side of the slide.

Moving on to slide number seven, I would like to highlight our operations in Latin America. Latin America, excluding Brazil, now accounts for 21% of the total sales of the Company in 3Q. The 47% growth achieved this quarter in Latin America, excluding Brazil, reflects the growing interest of major multinational brands in expanding their relationship with us, going beyond the headquarters in Brazil. And this growth of 47% that you see on the slide is mostly organic. So yet another area that is outperforming the market.

In addition to that, we want to announce in firsthand a recently celebrated contract with Nike in Argentina. Nike has been a partner of ours for several years now. They have been our customer in Brazil and Chile for some time, and now in another country in Latin America, Argentina. So with Nike and the other new customers in Argentina, we should be exceeding 60% organic growth in Argentina next year.

On slide number eight, we are advancing here with our ESG agenda. There are many initiatives, as you can see on the slide, but I want to highlight one of them, which is the Infra Code Academy. This is a program that is ongoing. It has been ongoing for two years now, and we choose 50 people from the companies' customer service, or logistics department, and we train them so that they become software developers.

This creates a great career opportunity in the technology area for these people, and in addition to that, we also create a pool of talents for our Company. As you all know, right now, it is very hard to find software developers in the market. So thus we can reduce our hiring costs, we increase the loyalty of our technology team, and we show the Company how we can have multiple career plans in the Company. You can, of course, have your career within logistics, but you also have the opportunity of changing areas and becoming a software developer.

In Human Resources, we are also working to create a career plan for all our countries where we operate, in order to offer more opportunities for the talents we have within the Company.

Now I would like to turn the floor over to Rafael, our CFO.

Rafael Quintas:

Thank you, Kai. Good afternoon, everyone. On slide number ten, we can see the main financial indicators. As Kai commented previously, we had yet another quarter with strong growth in GMV and net revenue, with variation of 85% and 104% respectively.

This growth results not only from the contribution of the acquired companies, but also the organic growth of 24% in 3Q, which, just like in 1Q, is way above that of the e-commerce market. The increase in the average take rate of the Company year over year is a reflection of the change in the revenue mix between B2B and B2C, and also a consequence of the acquisitions made in the quarter.

Our B2C customers usually have a higher take rate because they hire, on average, more verticals than B2B customers. And right now, they are more concentrated on InfraShop. We have been trying to offer more products and services to our B2B customer base, contributing to increasing the take rate in the quarter.

We can see that the increase of the TPV over our GMV base went from 15% in 3Q21 to 27% of penetration in 3Q22, showing that we are on the right track.

Moving on to the next slide, as we have been saying, we are completely focused on increasing our efficiency, be it through capturing synergies or through diluting fixed costs as a result of the strong growth of our revenue. As a consequence, adjusted EBITDA had a significant expansion when compared to the same quarter the previous year.

The initiatives listed previously, with greater impact on SG&A for now, explained the fact that we were able to expand our EBITDA even with reductions in gross margins. It is worth mentioning that the reduction in gross margins is a result between the change in the mix between B2B and B2C, and not any other commercial initiative to reduce prices or inflation pressure.

If we isolate the impact of depreciation and amortization without goodwill, without cash effect on our SG&A, we will see that the dilution at SG&A was even greater, going from 54.7% to 38.7%, a significant gain of 16 p.p. in the quarter.

As we are going to see later on, we still have a lot of space for reduction considering all of the synergies that we have already mapped and that will be executed in the coming months.

Now, moving on to the next slide, here we can see a breakdown of our net income. As we said in the previous quarter, our net income is suffering effects of non-recurring and noncash effects. In order to isolate those effects and understand the adjusted net profit of the Company, in 3Q22, we had adjusted net loss of R$38.5 million due to the increase in financial expenses that was a consequence of the increased income tax and leverage when compared to the previous year.

The increase in capital that we did in September, whose value partially entered our cash, has not contributed to improve our financial result this quarter, and it should reflect the results in the coming quarters.

Now, on the next slide, our CAPEX can be broken down basically into investments in infrastructure and technology, the latter concentrating most of the resources. Of the total of R$46 million invested this quarter, R$44 million were invested in technology, with a focus of not only developing our omnichannel platform, but also accelerating the unification projects of the different systems that came from the acquisitions.

In terms of infrastructure, we had expenses of R$3 million, way below the R$10 million that we did on 3Q21. And differently from last year, when our investment was very much directed to expanding our logistic grid, this year we are going to focus on productivity and virtualization of the DCs to maximize the synergies of the DCs that are located in the same region. As we said last quarter, most of that investment was concentrated in 2Q22. That is why we see this drop of investment when compared to this quarter.

And finally, most of these investments are one-off investments, and they will make feasible for us to capture the synergies that have been mapped, and they will probably reflect on our results in the future.

On slide 14, you can see our cash flow and net debt numbers. 3Q22 was marked by the partial completion of the increase in private capital. As we told the market earlier, we were able to raise R$400.8 million, but at the end of the 3Q, only R$234 million were already included in our cash. We used part of that capital increase to pay an installment of our business combination worth R$112 million. So our cash closed the quarter at R$262 million, with a net debt of R$216 million.

The proforma cash position, considering the total inclusion of the proceeds that were raised in October, would have been R$428 million, which represents a strong effort in our balance.

This quarter, we also announced our commitment to the M&As that were performed, which will bring a great relief in our cash position by the end of the year.

These initiatives, combined with a higher operational cash generation, contributed to a significant reduction in our leverage.

Now, I would like to turn the four over to Fabio Bortolotti, who will give you a few comments on our strategic advances.

Fabio Bortolotti:

Thank you, Rafael. The highlights of the strategic advances, the first one can be seen on slide 16. The major focus of our Company right now is on capturing synergies from acquisitions and gaining productivity and efficiency overall.

With the M&As in Brazil, we have a synergy potential of R$180 million, and we have a post-merger integration plan of which 36% of the activities have already been completed. So that is why we see some of these synergies already being captured, and most of the plans should be completed by December.

In addition to the synergies, we also have some opportunities improving processes and adopting best practices from one company to another, and consolidating our distribution centers, as already mentioned.

On our next slide, we want to highlight the strategic and commercial partnerships. One of them has already been announced to the market, which is the commercial partnership with AliExpress, to help us in our full commerce strategy in the platform here in Brazil and possibly throughout the whole region.

We are very happy and proud to be chosen by AliExpress as a partner in this long term strategy, in this very bold expansion plan for the region. And we were chosen by them as a partner to offer the best customer experience, not only for the brands that will be plugged in, because many of them are already our customers, but also in providing support to the sellers in Brazil, or those that work with cross-border operations, always focusing on improving the service level here in Brazil, and possibly also in the rest of the Latin American region.

Now I turn the floor over to Kai for his final remarks.

Kai Schoppen:

Thank you all very much. Now we are going to open for questions as usual. So feel free to send your questions via the chat box on the webcast platform.

Christian Audi, Itaú (via webcast):

I would like to understand the dynamic of the take rate, which has been reduced after a solid trend of expansion in 2021.

And the second question, what is the Company expecting in terms of M&A adjustments, to understand the recurrence of the expenses?

Fabio Bortolotti:

The average take rate of the Company is a weighted average between the business units, B2B and B2C. This quarter, we have consolidated many of the M&As that were made since last year, and in the 1H22, there was an accelerated expansion because B2C was larger, proportionally speaking, due to the consolidations. But this is already going down in 3Q, and next quarter, we expect to see a reduction of the average take rate expansion, but not necessarily a reduction of the take rate because the isolated take rates of B2B and B2C continue strong, and we have seen many expansions in types of services hired by our customers.

Rafael Quintas:

About the one-off effects, most of them are noncash expenses related to burnouts of M&As that were conducted which are registered as compensation, and they are linked to the permanence of executives in the Company. So these noncash amounts are one-off effects because they should be written off until the effective payment of the earnout, which varies depending on the Company that was acquired.

Fred Mendes, Bank of America (via webcast):

Good afternoon. I would like to learn what is the main reason to generate churn in a relevant customer in your platform.

Kai Schoppen:

At the end of the day, a churn of one of our customers is similar to that of an e-commerce platform or fintech. However, the range of services and technologies offered by us is much wider, but at the end of the day, this could be related to dissatisfaction with our services, which is not usually the case because we usually offer a great customer experience; but that, of course, could be a possibility. Or it could be a decision to bring a type of operations in-house.

So that is why in 2019, we made the decision of modularized in our offer. We looked at the market and we thought, if the customer is bringing e-commerce in-house, it does not mean that they are able to do everything in-house. They will hire an e-commerce platform. If they are not hiring ours, they will use another platform. And for payments as well. And even when it comes to logistics, they might not be able to do it in-house and they will hire a logistics operator.

So in 2019, we got to the conclusion that rarely a customer will want to remove all of the operations from Infracommerce, but they want to bring some strategic areas in-house. So we saw the case of customers who wanted to bring the customer service operations in-house because they thought getting to know their customers was a strategic for them.

So these are the usual reasons. But in recent years, with the modularization of our services, it is more likely, and that is why our churn is so low in number of customers, that a customer will remove one or another service from us, but they will remain with the rest of the services for longer.

So rather than charging 15% of income from this customer, we would go to 13% or 14%, but we would be able to keep the customer. And this has been considered one of our greatest strengths in recent years, because if you offer only fintech and only platform, then a churn will be full. And if you are in charge of the whole e-commerce operations, then you have a greater likelihood of keeping some of those services.

And finally, when a customer brings some operations in-house, they do not make so much with Infracommerce, because we are infrastructure for commerce. So we are their operator. We offer technology, data and services. But at the end of the day, the strategy is theirs. If they want to offer discounts, they can do that. The customer base belongs to them. The product belongs to them.

So if they take a strategic move to internalize some of the services, they can keep the benefits of data, access and control of what he would be doing at home with 20 to 30 different vendors.

Fred Mendes:

Thank you. What if a customer wants to change only the e-commerce platform, can they ask you to include VTEX?

Kai Schoppen:

The answer is yes. This has happened to us before. An Infracommerce standard customer is operated with 60 systems. So the e-commerce is just one part; of course, an important part of this technological setup, but only one part.

The e-commerce platform is one of seven channels to capture sales. So a customer that wants to work with VTEX or any other platform in the Company, we have seen customers that use a worldwide platform, so it would not be up to us to change the platform because in this case, it is a global platform that this client uses. But the payment gateway, the antifraud technology, all of the payment technologies are ours. All of the order management system is ours as well.

And if the customer sells via WhatsApp, then they will probably also use our WhatsApp tool. And if they want to sell in marketplaces, it is probably that they will not use VTEX in this case, but our marketplace multiplication tool, or our omnichannel tools, social commerce, metaverse. All of these new channels that are emerging require you to create parallel channels to run together with an e-commerce platform.

And e-commerce intelligence, the omni channel intelligence requires you to administer the complexity of all of these channels with multiple logistic centers. So even if a customer uses VTEX rather than our InfraShop, they will have to work with our order management system and many of our other support systems. So if a customer uses another market platform, it does not mean that we are not selling technology to them.

Diego Aragão, Goldman Sachs (via webcast):

Can you comment on the quarter over quarter performance for cash generation? What is the run rate of cash burn of the operation, and when do you expect to stabilize the free cash flow? Thank you.

Rafael Quintas:

Hi, Diego. Thank you for your question. You probably saw the evolution of our operational cash flow in recent quarters, especially when compared to previous years. There has been a great leap. We were burning operational cash flow in 3Q21, and now you can see a significant generation of operational cash flow.

So that proves that we are on the right track, not only because we can see that the revenue went up, but we also decreased costs and captured synergies. So the trend is that we generate more and more operational cash flow.

Of course, there are seasonal effects that can impact this number. In 3Q, the operational cash generation that we saw was slightly higher than expected because of the pass through of some of our customers in which we work with buy and sell.

Our main goal is that the operational cash generation is enough to cover our CAPEX, and we are getting closer and closer to that goal, so that later on, it is not only enough to cover our CAPEX, but also to generate free cash flow.

And with that capital increase and the reduction of our financial costs, the trend is that we get closer and closer to reaching that goal. And our ambition is that in the near future, and we hope this can happen next year, but we are now defining our budget, and we will be able to understand better when we are going to achieve that breakeven point.

Bruno Martins, Santander (via webcast):

Good afternoon. I would like to understand the receivables line trajectory, which was the greatest offender in your financial expenses.

Rafael Quintas:

A great part of what we transact is through credit cards. So we advance the receivables, and we have been doing that for some time now, and the trajectory of this advancement is related to seasonality, average interest rates, and also average terms. Because if you sell with an average payment term of three to four installments, you have an X cost to advance payment. But if the average term is longer with the interest rates, like that, people usually want to pay with longer terms and your advance cost usually goes up.

In the coming months and years, we expect the advance costs to go down, considering also the capital increase and cash reinforcement, which will also help this cost to go down.

Marcelo Korber:

We do not have any further questions. I will turn the floor over to Kai for his final remarks. Go ahead, Kai. You have the floor.

Kai Schoppen:

Thank you all for joining us for our call today. And as usual, feel free to get in touch with our Investor Relations team if you have questions or provocations. Thank you all for your attention, and see you soon. Bye.