Conference Call Transcript
Infracommerce (IFCM3)
2Q22 Results
August 12, 2022

Fábio Bortolotti:

Hello, everyone. Thank you for joining us for Infracommerce 2Q22 earnings conference call. I am Fabio Bortolotti, Investor Relations Officer, and I would like to welcome you to our earnings conference call.

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

Present today will be Kai Schoppen, Founder and CEO, and Raffael Quintas, our CFO. After the presentation, there will be a Q&A session.

Before I turn the floor over to Kai, I would like to caution you regarding our forward-looking statements. Any matters discussed today are not historical facts, particularly comments regarding the Company's future plans, objectives and expected performance, constitute forward-looking statements that are based on our range of assumptions and beliefs that the Company considers 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 as they involve risks, uncertainties, and premises, as they relate to future events and depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the Company and could cause the results to differ materially from those expressed in such forward-looking statements.

During this conference call, we will talk about non IFRS performance measures that should not be taken in isolation. For a conciliation of these non IFRS measures, please, see the tables in our earnings release.

Now I turn the floor over to Kai, who will give you the quarter's highlights.

Kai Schoppen:

Thank you, Bortolotti. Good afternoon, everyone. Let us get started on slide number four. First, I want to tell you that the numbers that we are sharing today, so that we are on the right track. So I want to thank our Infras, our customers, our partners and investors for being a part of this successful story in the journey in the last ten years.

Even in this challenging macroeconomic scenario, our results have been amazing, both in GMV and in revenue. We have shown strong growth, especially for the customer base we already have at the Company.

Our GMV grew by 100% in the 2Q, net revenue grew by 178% compared to the same quarter last year. But for us, the most impressive point was the organic growth. When isolating the contribution of the M&As, we can notice that our organic growth was of 46%, 10x as high as the e-commerce sector, which had a growth of around 4.6%.

In addition to proving that our integrated ecosystem model has become a global trend, this result outperforming the market shows the competitive advantage that the customers who operate at our level of service, with our technologies have compared to their competitors who do their e-commerce alone with an in-house model.

Another relevant highlight is the significant growth of our EBITDA, 9x higher than the EBITDA of the 2Q21. The capture of synergies of the M&A and dilution of SG&A are the main drivers of such significant improvement.

We had significant improvements also in other KPIs such as TPV, take rate, items delivered and the number of clients, and we will tell you more about that during this presentation.

On slide five, we show you once again our complete ecosystem of digital solutions. The success of Infracommerce's business model is based on the horizontal integration of all of these services and technologies in one single place, and this makes our customers benefit from a level of benefit to consumers in a sophistication of their e-commerce operations that are similar to the two main marketplaces, because they run 100% integrated on a GMV base that is multibillionaire.

With the scale that we have achieved with our growth and due to the consolidation of the market, we have started to offer our solutions in different modules, opening up an even greater addressable market.

Moving on to slide number seven, you can see some of the brands that have joined us here in Brazil and that are part of the 62 new clients that we have acquired this quarter. As you can see, we have strong names such as Alpargatas, Nivea, Pampers. In B2C, because of the new clients, and also growth in existing clients as well as the M&A additions, our revenue grew 249%. In the B2B segment, we had growth that was completely organic of 59%.

In addition to the GMV growth in our platforms, there has also been an expansion of the average take rate. Our churn continues to be very little, accounting to 0.4% of the revenue in the 1Q.

On the next slide, we can see the highlights of our operations in Latin America. The growth of 132% that we saw this quarter in Latin America, excluding Brazil, reflects the growing interests of great brands and multinational companies in improving their operations here in Brazil, and to having access to technologies and service levels in many countries in the region.

We have a growing pipeline of leads of clients in Brazil in an AFP process in more than one country in the region, and this slide shows different examples of clients with great potential with whom we already have operations outside Brazil. Brands like Nike, Diageo and H&M. So the rest of Latin America now accounts for 22% of the Company's total sales.

On slide nine, you can see the main terms of the private capital increase that has been approved by the Board and that was shared yesterday in a Material Fact conference. The total amount of this operation will be of R$400 million, and the price will be based on the weighted average price of the last 60 auctions.

All shareholders in the Company will have the right to participate in this capital increase with their respective participations' share. The main goal of this private capital increase is to reinforce our cash position and capital structure, accelerating the path towards net income.

As anchors of this, we have three groups. First, Engadin, from Jereissati Group that has been investing in Infracommerce since 2019. Iguatemi and Engadin will have separate stakes at Infracommerce, and the funds will be given by Engadin. Then we also have two very well-known funds in the market, Núcleo and Compass, and they have been partners of ours since IPO, and they will also be anchors of this transaction. And the third group is the family office of Falabella's Partners, the Megeve Fund, the family office of one of the largest retailers in Latin America, who will contribute also as strategic partners of the expansion in Latin America. We are sure this movement will be determinant to generate value to our shareholders.

On the next slide, you can see some details of our ESG agenda advances. I would like to highlight some relevant moments here. First, we have increased to 65% the use of recycled material in our packaging in recent months, contributing also to a cost reduction in packaging. And for the third year in a row, we have received the certification of the great place to work. We have also joined the Rede Brasil of the Global Pact, an initiative of the United Nations that is a reference for ESG. And as we said in the Material Fact conference, we have implemented a people committee and a fiscal council.

Now, I would like to turn the floor over to Raffael, who will talk about the financial highlights.

Raffael Quintas:

Thank you, Kai. Good afternoon, everyone. So on slide 11, we see some of the main financial indicators. As was said previously, the 100% growth in GMV and net revenue growth of 178% prove that we are consistently delivering to our clients a higher service level, and at the same time, we are benefiting from the growth of the direct to consumer segment.

Proof of this is that we had significant organic growth, as Kai mentioned, that outperformed the market in the period. Adjusted EBITDA also had significant expansion when compared to the same quarter last year due to the evolution of synergy captures from our M&As, and also dilution of SG&A. Non-recurring expenses in the quarter are related mostly to the M&As that were conducted and they have no cash effect on the Company's results.

Now on slide 12, let us talk about some other financial indicators. Starting with the take rate, in the quarter, the average take rate of the Company reflected the higher percentage of B2C in the acquired companies, in addition to a growing effect of the cross-selling in our client base, especially in the B2B segment.

Our B2C customers usually have a higher take rate because they hire more verticals than B2B clients that are now more concentrated on Infrashop. This creates an interesting opportunity of cross-selling some of our business units, such as Infrapay and Infralog to that client base as well.

The change of the mix between B2B and B2C also influenced the behavior of the gross margins. In spite of the higher take rate, B2C clients usually have a gross margin that is lower than that of B2B clients. This reduction in gross margins was more than offset by significant dilution of SG&A, as you can see in the numbers of this quarter compared to the same quarter last year.

If we isolate the impact of depreciation and goodwill in our SG&A, we will notice that the dilution was even higher, going from 53% of the net revenue to 40% of the net revenue, so a 13 p.p. reduction in the quarter. We are focused on capturing synergies with several cost reduction initiatives in place as well.

Now on slide 13, you can see our net profit breakdown. As we said in the previous quarter, our net profit is suffering effects of non-recurring items and non-cash items. Here in the chart, you can see what these effects are so that you can understand what the actual net profit of the Company is.

In the 2Q we had adjusted net loss of R$56.5 million because of the increase in financial expenses, increase in interest rates and leverage when compared to the previous year. As we said earlier, the capital increase announced will contribute significantly to rebalancing our financial results and net profit.

On slide 14, you can see the details of our investments in the quarter. As you all know, our CAPEX is divided basically into investments in infrastructure and investments in technology. Unlike last year, when the investment in infrastructure and logistics was very much focused on expanding the logistic grid, this year the focus will be in making sure we have increased productivity in verticalization of our distribution centers to maximize synergies and consolidate those that are in the same region. This last quarter, the investments were more concentrated, but this is not expected to be repeated in the coming quarters.

Even with the distribution center consolidation, we have enough capacity to support the growth plans of the Company and increase the profitabilization of our logistic grid, without the need of investing as much as we invested this quarter.

Our main investment in the 1Q was in technology, amounting to R$39 million. The growth compared to last year was due to the acceleration in the investment in our omnichannel platform.

On slide 15, you can see our cash and net debt. The Company's cash closed the 2Q22 at R$224 million, which is above the R$1Q22. Our net debt went to R$251 million after the payouts of the M&A conducted in the period at the official notices that were announced to the market.

In addition to these numbers, we need to consider the capital increase that was announced yesterday, which will equalize the capital structure of Infracommerce. Considering this capital increase of up to R$400 million, the Company would go back to having a positive net cash in a pro forma view, addressing for once the problem of capital structure that was being questioned by some of the analysts.

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

Kai Schoppen:

Thank you, Raffael. So now on slide 16, you can see the main points that were addressed during this conference call. Infracommerce is going through a very important moment. In addition to organic growth and expansion of EBITDA margins, this capital increase will be yet another important step for Infracommerce to continue its journey to become the main integrated digital ecosystem in the Brazilian e-commerce arena.

Lucca Brendim, Bank of America (via webcast):

I would like to hear a bit more about the margin dynamics for the 2H22, and also the expectations to achieve this year's guidance.

Raffael Quintas:

As I said in my presentation, our focus has been on maximizing the capture of synergies. In the last call, we gave you details about the stage and the status of the integration with the companies acquired. We are focusing on defining the org chart and then capture synergies, renegotiating contracts and reviewing processes.

And the last stage, which is usually the one that takes longer, is to review all of the systems of the companies. Today, we have redundancy in many areas with different systems of the acquired companies, and our focus has been to unify those systems and all of the synergies that come from unifying those systems and the logistic grid as well.

We expect that to be captured in the 2H22, beginning of next year. So we have a great opportunity here to reduce our costs even further, and we have other cost reduction initiatives that are being put in place in parallel, in addition to efficiency gains that would be happening in addition to the M&A.

In terms of margins, the gross margins faced this low down compared to the 1Q. It is hard to know for sure how right now what the behavior in the 2H22 will be. We might continue with a small slowdown, or it may also stabilize at the level it is right now. But most of the synergies come from SG&A, and this can more than offset a possible reduction of gross margins. This can lead our EBITDA to increase, or to be kept at least within the guidance that we presented to the year.

Lucca Silva, Persevera Asset Management (via webcast):

Will the capital increase be devoted to capital structure, or is there additional things to be done with the proceeds?

Rafael Quintas:

As was said in the call, this is to address a concern that many analysts have been asking us about, which is our capital structure and leverage, not only because of contracted agendas, but our commitments to pay from M&As that were made. So our goal is to improve our capital structure and reduce our financial expenses.

We have robust organic growth of our revenue and a solid and consistent margin. The only point of concern was our financial expenses and leverage, which we will address for once with the capital increase. So that is the main goal of such capital increase.

Of course, we are also working on other initiatives to improve our capital structure, such as lengthening our debt profile, although we have our debts much more in long term than short term. But we have been talking about that to lengthen the terms of debts that will mature next year and also lengthen some M&A commitments.

Some of these activities have already been implemented successfully to reduce our obligations that you can see on the balance sheet of the M&As that we have done. And we continue with the negotiations to lengthen the term of these commitments.

Lucas Gomes (via webcast)

About the increase of the B2C share, what is the strategy of the Company to keep the gross margins at those levels?

Fábio Bortolotti:

The increase in the B2C share is more related to the consolidation of the M&As, that were mostly in the B2C segment. So this was an effect on the gross margin. But we have the B2B area with strong organic growth, actually higher than that of B2C.

Kai Schoppen:

You are exactly right. And at the end of the day, there are two ways for us to increase gross margins. The first is a disproportional growth of B2B versus B2C, so in the weighted average that would increase, and most importantly, to reduce costs and, as a result, cause margin expansion.

In times of high inflation rates, as you can imagine, the second dimension, even when it gains scale, is harder. So we are focusing very much on SG&A, which is something we had promised to the market in the last 12 months.

So gross margins to achieve an EBITDA level that we signaled to the market is less important than the dilution of our SG&A. But at the end of the day, these are the two drivers we have to focus on, and we are working on all of the dimensions, the growth of B2B, cost reduction and SG&A reduction.

Diego Aragão, Goldman Sachs (via webcast):

Could you explain the cash variation this quarter? It would be interesting to understand those cash variation and see the differences between the 1Q22 and 2Q22.

Raffael Quintas:

In the 1Q, our cash was around R$200 million, and in the 2Q, our cash was around R$225 million. During that time. It is important to say that we generated operational cash, which is very relevant, and that was due to all of the initiatives that we mentioned, margin expansion and increase in our organic growth.

We had operating cash generation of around R$26 million during the quarter. We raised around R$130 million and we paid Brandlive M&A with payments of around R$30 million. So these were the main factors that influenced our cash, in addition to the CAPEX that I mentioned, which was stronger this quarter. We would have had a greater cash if it were not for the CAPEX acceleration in the quarter, but this acceleration this quarter, as I said, was very much concentrated this quarter so that we could capture some synergies going forward.

During our Investors' day, we said that we used to have four distribution centers in the Greater Sao Paulo area, and we have been investing a lot in our distribution center located in Embu to verticalize it and gain efficiency, so that we can concentrate and close the operations of some of our distribution centers, and that will lead to great synergies in the coming quarters.

In the 2Q, we already closed the operations of one of the distribution centers that was located in the region of Lapa, in Sao Paulo, and that will bring gains of around R$300,000 a month. And we still have another two DCs that we intend to consolidate here in the region of Embu. So the investments that were made in the 2Q are not expected to continue in the coming quarters. It is a non-recurring investment.

Guilherme Corazza, Eleven (via webcast):

Do you have other initiatives on your roadmap in addition to the private capital increase that was announced yesterday?

Raffael Quintas:

As I said, we still have credit lines available. And with the capital increase, I think that I am going to call each one of the banks to renegotiate the debts that we had available to reduce interest rates and improve the conditions. And of course, having those lines available, it is always good to have the option of using them or not if need be.

But in addition to that, as I said, we are focused on lengthening our debt profile, which is already long term, but we want to avoid amortization next year, in addition to lengthening the terms, or reducing our M&A commitments.

Some of these commitments were already renegotiated, so we have lengthened the terms, but for others, we are still working on them.

Fabio Bortolotti:

Thank you, Raffael. That was the last question we received via chat. I would like to thank you all once again for joining us. We are very happy with our results release and the announcement of the capital increase yesterday, anchored on reference funds and renowned brands. And as we said, our IR team is available should you have any other questions, especially related to the capital increase that will happen in the coming days.

Thank you very much and have a great day.