

Conference Call Transcript
Infracommerce (IFCM3)
3Q21 Results
November 12, 2021

Fábio Bortolotti:

Hello, everyone. Thank you for joining us for our earnings conference call for the 3Q21. I am Fabio Bortolotti, IR Officer at Infracommerce.

The results we announced this morning, the audio of this call and the slides that we will reference are available in our RI website.

Joining me today are Kai Schoppen, our founder and CEO, and Raffael Quintas, our CFO.

After the presentation, we will be here for the Q&A session. In case any of the participants would like to pose a question, please use the chat box on our webcast platform.

Before I turn the floor 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. These statements 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. Also, forward-looking statements are no guarantee of performance. They involve risks, as they depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors can also affect the future results of the Company and lead to results that differ materially from such forward-looking statements.

During the course of the call, we will discuss non-IFRS performance measures, which should not be considered in isolation. For a conciliation of non-IFRS performance measures, look at the tables in our earnings results.

Now I turn the call over to Kai. Kai?

Kai Schoppen:

Thank you, Fabio. Hello, everyone. Thank you for joining us in our conference call today. We are very happy to share the 3Q21 results. I am very excited with the results of the quarter, as well as with the prospects for 2022.

This quarter, we almost completed the delivery of the plan that we presented in our IPO through M&As, investments and the modularization of the offer and expansion of our sales machine, going beyond the diversification of the revenue, with significant increase in the number of customers and internationalization of operations.

I would like to start by thanking our team of Infras for their dedication. They were able to deliver in this truly transformative year, and they always seek to overcome our expectations, while, at the same time, they keep a great focus on innovation. This is our way, and I am very proud of what we are building together.

As you can see on slide number four, I would like to talk about the amazing brands that we have achieved on the commercial side. We have had a new record of customers. We are now 433

customers in our ecosystem. We acquired 43 new customers in the 3Q. In addition to that, there has been a 63% increase in leads received quarter on quarter, which gives us great expectations for the year of 2022.

In the 3Q, our churn was virtually zero. We only lost one customer from the base.

Infrapay B2B, our fintech, is still very attractive. And although we are still in an incipient phase, we were able to acquire 11 customers on and off platform, without the cross-sell of the platform or the B2B marketplaces where we operate.

We also advanced in the modularization of our offer, increasing the flexibility of our business model even further. Now we can enable customers to purchase platform and payments with Infracommerce without having to go for the full commerce.

Among the customer highlights, we have the expansion of new services in existent, significant customers like Nespresso, Ambev and Nike, in addition to the opening of new relevant customers like Agrogalaxy, H&M, Petland and Shell.

As you can see on slide number five of our presentation, our GMV added up to R\$1.7 billion this quarter, up 43% year-over-year. We have achieved a record net revenue of R\$105 million, 70% higher than the 3Q20.

Another good news about the top line is the 18% increase in our average take rate, both due to the mix of channels, and also the cross-selling of modularity solutions that we were able to achieve. Our TPV more than doubled, boosted by the launch of our FIDC and the fintech solution, totaling R\$276 million in the quarter.

We also close the quarter with 2,445 employees, almost 500 of them in the technology area. And with the completion of the acquisition of Synapcom, the total number will go up to about 4,000 employees.

On slide number six, you can see some of our operational highlights for the 3Q. We have delivered 23 million products, an 88% increase, and yet another historical record for the Company. Of those, 61% of the orders were delivered in up to 48 hours. In some cases, the deliveries are made within 2 hours.

Our mission of creating disruptive value with our customers is to get to 80% of the orders delivered within 48 hours, and these indicators have been improving month after month, as we follow our promise in delivering the best white label customer experience in Brazil and Latin America.

We closed the quarter with 11 distribution centers and 10 dark stores. Only the largest marketplaces of Brazil get close to such a robust logistic grid.

Now, a point that I would like to highlight is the traction for customers to consume our network of dark stores. Here at the bottom, you can see an example of a customer that shows the potential of the solution. Consumers have shown more and more interest in the ultrafast delivery within 2 hours, and in this specific case, in some of the regions, we were already able to achieve 56% of the orders delivered through our dark store in a fast-track delivery, and the NPS is the largest one in all of the omnichannels.

Moving on to slide number seven, as a technology company that offers our own platform, in addition to many other systems that make up this e-commerce operations, we need to constantly evolve and add new functionalities.

So this quarter, we would like to highlight the go live of the omni payment technology that solves a recurring problem that we saw in our customers, like the split of payments. For example, if a customer makes an order half via e-commerce and half via brick and mortar store, 100% of the payment can be made in the physical store.

We have launched B2B platforms for the agribusiness, pet and medical care sectors, with a addressable market, a TAM, which should increase even more the GMV that runs in our technology. And as we said, when we acquired Summa Solutions, we are evolving with the first cases of our own B2B platform abroad.

On the next slide, you can see our commercial and operational performance, allied to the M&As that have already been performed. This puts Infracommerce at a completely new level compared to the Company we had a year ago.

We will give you further guidance later on in this presentation, but we estimate that, after the closing of Synapcom, a revenue of R\$950 million by 2022, so 4x higher than the revenue we achieved in 2020. This will put us in the spotlight in the scenario of the Brazilian e-commerce and in Latin America, which will enable us to invest in technology and service level, keeping our value proposition towards our customers that want to boost their own digital strategy through our ecosystem.

In addition to that, the merger of the companies will enable us to have one of the most experienced teams in the market, both for B2B and B2C, a significant reduction of operational costs that will be released after the closing, and that puts us in a good position to advance in our master plan of digitalizing the supply chain in Latin America.

Now I would like to turn the floor over to Raffael Quintas, our CFO, which will give you further details about the financial performance we achieved in the 3Q21.

Raffael Quintas:

Thank you, Kai. Good morning, everyone. On slide ten, we can see the performance of the 2Q, which is a reflection of the significant expansion of our customer base, the cross-selling initiatives and the very well controlled churn, as Kai said. We have achieved a GMV of R\$1.7 billion, up 43% year-over-year.

About our net revenue, our growth was even greater, around 70%. That is a result not only of the GMV expansion as we mentioned, but also a growth in our take rate compared to last year. We have achieved a record level of R\$105 million of revenue in the 3Q, and the M&As that were completed during the quarter had only a partial contribution, since they joined the Group throughout the quarter, and they do not include the acquisition of Synapcom. At the end of the 3Q21, we had a gross profit of R\$52 million, and gross margins of 50%, the better of the year, and still above last year's rates.

Adjusted for nonrecurring events, our EBITDA this quarter was R\$4.4 million, similar to last year, even with the growth of the corporate structure that we did during and after the IPO and the strong investments we made during the quarter in expending our logistic grid and our fintech, which should give us better results in the coming months.

On slide 11, this quarter, our CAPEX was R\$23.9 million, specially allocated into technology projects, aiming to develop our omnichannel platform more and more, and expanding our logistic grid, as I said previously. This investment represented a growth of 105%, so more than double the previous year, boosted by the factors I have already mentioned, especially the investments in technology for our platform.

It is important to note that our strategy of being closer to our customers contributes to the reduction of the delivery dates, and a significant increase in the sales conversion rates of our customers.

On slide 12, you can see a fundamental lever of our business, fintech Intrapay. With this trade finance solution, we can extend payment terms to small retailers boosting sales to distributors who are sellers of our platform. And due to the differential of use of artificial intelligence based on transactional and financial data, we have been able to be very assertive in our credit analysis, our default rates are very low. As a result, we have been really proud to have a rating classification of our FIDC with AA- rating, which shows the quality of our processes.

As to cash, on slide 13, you can see the part of the IPO proceeds we used to pay for M&A fees and debt amortization for the Company, as we said during the IPO. We closed our cash with almost R\$600 million. This cash does not include the debenture issuance that we are doing right now, which has been recently approved by the Board of Directors of our Company, of approximately R\$250 million, to take place in the 4Q, and a five-year term and two-year grace period. We have reduced our debt level from R\$71.9 million in December 2020 to R\$17.9 million in September 2021.

Now I turn the floor over to Fabio Bortolotti, who will give you further details about our guidance projections for 2021 and 2022.

Fabio Bortolotti:

Thank you, Raffael. Now moving on to slide 15, as Kai said, we are giving you a guidance for the end of the year and 2022 because of all changes we had in the Company in recent months after the IPO. So here you can see consolidated projections of Infracommerce considering organic growth and the M&As that were already announced. There are no additional M&As.

The GMV of the Company is probably going to achieve R\$7.2 billion in 2021 and R\$13 billion by the end of 2022, so an 80% growth, and a compound annual growth rate that is quite consistent. Our B2B unit is also growing consistently once again, achieving R\$6.3 billion in 2022, and part of this growth is part of the ramp up of projects already contracted in 2021. The B2C unit will achieve around R\$5.5 billion, boosted by the modularization of the offers and the consolidation of the M&As that were completed.

Now, let us give you the numbers of Latin America ex-Brazil, which also gives us the possibility of achieving an accelerated growth pace, which will also be an important expansion driver for the Company in the short and medium terms.

On slide 16, you can see our prospects in terms of net revenue. Our growth in 2021 should be around 74%, but that can vary slightly due to the timing of the Synapcom consolidation, but with the effect of the M&As and organic growth of around 60%, we will achieve a level close to R\$1 billion in revenue.

Since 2019, pre-pandemic level, there would be an annual compound growth rate of 90%. That level puts us among the main e-commerce and technology players in Brazil, and gives us the possibility of continuing with our innovation and efficiency.

The B2B unit in Brazil keeps average organic growth around 60%, while the B2C Brazil expands boosted by new customers and M&A movements, achieving total revenue of R\$643 million. The LATAM unit also has a relevant growth in revenue, achieving R\$133 million, which is strategically relevant in terms of geographical diversification and exchange rate risk, and also the high growth expected for the coming years.

Now on slide 17, this growth in revenue that I just mentioned will enable us to dilute the fixed cost, and specially G&A, which is the main EBITDA margin expansion lever for the short and medium terms. And we also expect to reduce our variable costs through renegotiations with suppliers due to the exponential increase in our volume.

After the closing with Synapcom, we will have a better vision of the potential synergies, and integration costs are being calculated by a specialized consultancy firm that will also help us to make the most of the synergies. By the end of next year, we are going to have a run rate of EBITDA margin close to the level expected for the companies in the industry, which will reflect on that income and cash generation.

On slide 18, you have a summary of the main take home messages that we conveyed to you today. I just want to highlight the opportunities to grow our ecosystem, especially in B2B. We said the fintech is a great lever for margin expansion, as well as B2C, Brazil and in other countries of Latin America.

With that, we would like now to open for questions.

Participant (via webcast):

Thank you for your call, and congratulations on your results. Can you give us further details about the cross-selling in your customer base and your Infrapay performance, how has this been going? And now about cross-selling and fulfillment, can you give us a bit more detail about that? And now, the partnership with Abad, can you tell us about the development in this marketplace?

Kai Schoppen:

Thank you for your question. In cross-selling, we have B2C and B2B initiatives. In B2C, a typical cross-sell would be our POS solution/omnichannel solution. As a comment, we do not only offer technology, but also intelligence of supply and payment. So it is the whole technology of brick and mortar stores integrated with the e-commerce.

We have this payment solution and BI that helps the brand to decide where the product should go when it comes to brick and mortar stores and logistics center. So that is something we add to as traditional B2C solution.

We also have brands that start with the logistics center within the complete solution with one and two, and then we can open yet another distribution center, and so they can enable the ultrafast delivery in some defined cities in Brazil.

We are also using our fintech. 50% of the B2B e-commerce solutions and marketplace solutions that are launched already have this trade finance solution, and others use our fintech at first. So we expect gains in 100% of the cases next year. We want that 100% of them use our fintech. Just to give you three examples. There are many others, but these are the three most obvious one.

About the Abad project, we are on course, within the expected timeline. The deadlines were short, but yes, we are on track. There will be a conference held by Abad in the coming weeks, and the solution will be presented there in their conference, so everything within expected when it comes to that. The project is advancing quite well.

The GMV and the billing of this project are not immediate, it will take a few months, but yes, the launch is within the expected timeline.

Participant (via webcast):

Will you be able to complete the acquisition of Synapcom before the Black Friday, which is on November 26th? And can you think about acquisitions to complement the ecosystem in 2022?

Fabio Bortolotti:

We have a meeting scheduled exactly for the Black Friday day, so we expect Synapcom to be included and completed by December.

About other acquisitions, yes, most definitely. We are still watching out for opportunities after this integration. Of course, right now we are going to focus on integration. The integration with Tatix is very well advanced, we were able to streamline the integration process that will start on December the 1st. And other acquisitions are already in our pipeline. Any additional acquisition would be added to those that we have already disclosed here.

Guilherme (via webcast):

My question is about the guidance. When we compare only Infra and including Synapcom, we see a contraction in your numbers. Can you comment on that?

Fabio Bortolotti:

There are a few factors that can influence this. We did the due diligence for Synapcom on acquisition within Infracommerce's standards, and we believe that there might be some de-synergies at first with regards to some severance, pay costs and others. So we are usually conservative when it comes to the estimates and also when it comes to the synergies to be captured.

Kai Schoppen:

With that in mind, we think that the numbers are quite appropriate. As I said during my part of the presentation, we are more worried about the run rate of the EBITDA margins for the 2H21. That will give us a better vision of the full quotation of the combined companies, which will probably have an EBITDA margin way above those 10% that we projected.

During our IPO roadshow, I said that, as a Company, I believed we were doing a spectacular job, keeping good EBITDA levels, even though we had our own platform. Other players that have their own platforms all around the world do not have such a good EBITDA. And at the same time, we are launching a fintech, opening logistics centers, expanding to other countries in Latin America, and all of that is happening. And even so, we have been able to achieve positive EBITDA margins.

I always said that we would be careful with the EBITDA. We are not maximizing cash flow and EBITDA right now. We are focusing on growth, and that is going to be kept next year on growth, and only after that we are going to focus on profitability KPIs.

But when it comes to e-commerce and digitalization players in the market, they are not doing that. So when it comes to initiatives, if you look at our EBITDA numbers, you will see that we are on the right track.

Participant (via webcast):

Is there any dilution in revenue compared to last year? We saw Nike canceling some contracts, since they are now coming with Centauro and Mercado Livre more recently.

Kai Schoppen:1

It is not about customers canceling contracts, our churn was virtually zero. In the 2Q, our churn was zero. So these questions always arise, and I would like to tell you to look at the KPIs to see if this is true or not. If it were true, then the churn would be higher.

We are growing in terms of number of customers, and also in other not as large customers, and in the 2Q, we said that Nike continued with our distribution center. We closed the full commerce

operations with Nike in Chile, and it is alive and kicking, already working in place. So not only we did not lose the Nike contract, but we are also expanding our contract with them in the short term, which is very positive.

About Mercado Livre, as I said in the roadshow, medium-sized and large-sized companies, brands that are customers, they already know what happened in the U.S. and China with Alibaba and Amazon, which have this full commerce operation and then launched their own brands.

And Infracommerce, which has this position of independence, becomes a player and it is able to offer technology, data intelligence and a logistics grid that is comparable to that of a major marketplace. But it would be also an independent ally, without having to convert products like Amazon Basics and similar.

So I think that our target audience is aware of this independent positioning that Infracommerce has, which is really good for us and actually strengthens us in the market.

Fabio Bortolotti:

As a reminder, part of our strategy is not our own website. We are the ones who get in touch with the marketplace, and that reflects in businesses for us, for customers that want to have a hybrid solution with their own website and the use of our marketplace.

Now, how long to complete the transaction of the Synapcom acquisition? We believe that we will be able to capture synergies in the next two to three months. Of course, when it comes to winning contracts, the effects are seen almost immediately, but we have things related to migration of systems, this is going to be a robust work that might take some time.

Participant (via webcast):

Can you talk about customer overlapping?

Fabio Bortolotti:

There is no customer overlapping. Only if we had a customer that does B2C with us and B2B with someone else, but it is virtually non-existent. The overlapping is quite small.

Participant (via webcast):

Can you talk about B2B growth strategy for 2022? What can we expect in terms of market share gain, also to boost the B2B growth?

Kai Schoppen:

As you can see in the guidance that we included in our call, the B2B is accelerating more and, at the end of the day, this is already great news on its own. Yes, because of the relevance that we gained in B2C, we have the opportunity of doing cross-selling in B2B within the two business models, sales for individuals, and also supply to small markets, restaurants and fashion stores, for example. These are different modalities, and in theory, many of our customers need both modalities.

So, yes, we have been very conservative in the B2B, B2C cross-selling, because we realized that customers want one to two years to have maturity, either in B2B or B2C, before they focus on both of them at the same time.

We did not say much about this in our 2022 guidance because we expect that to happen more in 2023. Maybe we are being conservative, but we are really considering an expansion within the B2B

vertical and B2C vertical, without relying on this cross-sel. That will clearly happen, but we want to be conservative here when it comes to the prospects for next year.

Guilherme (via webcast):

You talked about new segments, the pets segment, as well as medical and agribusiness. Can you tell us about customer conversion in those segments?

Kai Schoppen:

Excellent question. One thing we did with the IPO proceeds was a modularization of our sales force. So we are now putting together a sales force for pets, for medical, for pharma, for agribusiness, so that we have a greater focus in our sales machine in lead generation. And the initial results are quite good, with great acceleration of the leads, the great work of our sales team. So this is working really well.

But our B2C or B2B sales are not quick processes. They usually take two to three months, and then another two months for implementation. So these are actions that were taken today to accelerate the processes next year. But Synapcom is certified to sell drugs as well, this is a recent development they made, so this opens up the pharma market for us, which is quite interesting.

And the pet market, we have a new customer in that area, this is a large market in Brazil. You all know about how Cobasi has been very successful in the financial markets, so we think this is a good bet.

And agribusiness, I do not even have to mention, right? Monsanto has a small project with us. So our initial base is quite good for us to grow in this huge market.

So considering all of the complexity, we have been segmenting our sales team and our key account teams per segment, so that they can focus a bit more. And once again, it has been working really well.

Fabio Bortolotti:

Thank you all for your excellent questions and for joining us for our call today. If you have any questions, just get in touch with us. We are always available.

As we said in our presentation, we are very excited and very happy about our results and about the level that our Company has achieved. So we decided to talk a bit about the future, because the Company in 2022 will be completely different from what we see now in this quarter in terms of size and potential. So if you want to better understand any of these projections, just get in touch, we are always available.

Have a great day. Take care, everyone.

“This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the Company hosting this event, which was transcribed by MZ. Please, refer to the Company’s Investor Relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript”