Conference Call Transcript
Infracommerce (IFCM3)
1Q22 Results
May 13, 2022

Fábio Bortolotti:

Hello, and welcome to our conference call of the 1Q22. I am Fábio Bortolotti, IRO. The results that we announced yesterday and the audio of this conference call will be available from our IR site.

We have today, Eduardo Fregonesi, our Brasil President, and Raffael Quintus, our CFO. Our CEO and founder, Kai Schoppen, is not with us today. His son was born yesterday. He wanted to participate, of course. He wanted to share our achievements with us, but we know how important it is for him to be with his family at this time. So we will try to make up for it.

After the presentation, we will remain available for the Q&A session. If you want to ask a question, use the chat fields in the platform.

Before turning the floor over to Eduardo Fregonesi, the President here in Brazil, I would like to highlight that any comments made on the future and prospects of the Company are based on the Company's premises and assumptions that we believe are reasonable, but are subject to uncertainties and risks, which are discussed in detail in the documents sent to the CVM. Forward-looking statements involve risks, uncertainties and assumptions and have to do with future events, which depend on circumstances that may or may not occur. Investors should understand that general macroeconomic conditions, industry conditions and other conditions may affect the results of the Company, which differ materially from those expressed in such forward-looking statements.

Additionally, during the conference call, we will discuss performance metrics which are not according to IFRS, and for a conciliation of debt, please see the tables in our release.

I now turn the call over to Eduardo Fregonesi, who is responsible for the operations in Brazil, and he is going to make comments about the main highlights of this quarter.

Eduardo Fregonesi:

Thank you. Welcome. I start with slide four, and our results in the 1Q shows that we are on the right path and well-positioned for a more challenging scenario.

There is an increasing trend for migration of the sales of our clients to direct consumer. The objective is not only to be closer to the end consumer, but to reduce costs in a scenario of high inflation to disintermediate the supply chain, and with a better customer experience, an extraordinary one.

As a result of this favorable scenario, our GMV grew 105% and the net revenue grew even more, 167%, as compared with the same period last year. This robust growth had to do with the growth in the same clients and the consolidation of M&As. If we isolate the contribution of M&As, the organic growth was 40%, 3x higher than the growth in the e-commerce, which was 13%.

D2C is here to stay. This shows our competitive advantage for those clients who operate at our level of service, relative to in-house models. Also, we grew expressively in terms of EBITDA, and this reflected the capture of the M&A and dilution of SG&A name. We also managed to improve all our KPIs such as TPV, take rate, delivery rates and the number of clients, which reached 572.

Moving on to slide five, you see our sales machine, which is accelerating, and our value proposition reflects the needs of the market. We also have a modular offer. More than half of the 55 clients that we acquired during this quarter were attracted by one of the products or services that we offer in our ecosystem. Most of the clients are going to generate revenue in the next few quarters. So, this will continue to deliver organic growth in the future. We have acquired very important brands from different sectors, different industries, which contributes to diversification of our portfolio.

On slide six, we show again our complete ecosystem of digital solutions. The success of our business model has to do with the horizontal integration of all the of the services and technologies, which allows our clients to benefit from a level of customer experience, which is like the major players in the country. Everything is integrated in a GMV base.

Infracommerce has acquired a scale organically and through consolidation of the market, which has allowed us to use these solutions in a modular way, and this opens opportunities in the market, thus expanding the possibilities for new clients. All the verticals in Infracommerce can continue to evolve their solutions and will contribute so that to be disruptive for those brands that want to be part of our ecosystem.

Moving onto slide seven, we show the strong growth in 1Q per business line. In B2C, our revenue grew 186%, and this was driven by the same clients and the consolidation of M&As. This line of business benefited from no churning of relevant clients.

In B2B, we saw growth of 65%, totally organic growth, and the GMV growth of our platform was also helped by the cross-selling of trade finance and the increase in GMV. The rest of Latin America grew 230% and represents 19% of the sales.

The share of these countries in the e-commerce market is close to 50%, so we will naturally see a greater share of this business unit within Infracommerce. As we said before, our churn is not very relevant in accounts for 0.2% of the revenue in 1Q.

On slide eight, we will talk about one of the major strategic priorities for this year, which is the integration of the acquired companies to gain synergy and scale. In terms of integration, there are three phases: definition of the integration of people, and this is practically finished. All the companies had similar cultures, which accelerated the integration of the people.

Then we want to obtain synergies by renegotiating contracts, cross-selling services, and diluting overheads. This phase took place after the acquisition of Synapcom. We have renegotiated some contracts, but we still have a lot of opportunities for further renegotiation, dilution of overhead and more cross-selling. And also, the integration of the systems. This has started but should be completed only after 3Q.

In addition to the overlapping of systems, we have costs relating to the integration project, which we are not considering as nonrecurring in our balance sheet.

In addition to the synergies, the scale has allowed us to increase productivity and the results of these projects will be captured throughout the year. If we consider the recurring effect, we can expand the EBIT margin by up to 8%.

We are renegotiating contracts. We are optimizing the DCs. We are focusing also on cross-selling. We are focusing on productivity improvement with automation and adoption of better practices amongst the companies.

I now turn the floor over to Raffael, who is going to talk about the financial performance.

Raffael Quintas:

Thank you, Eduardo. Moving on to slide ten, I am going to talk about the main financial indicators. As was said before, GMV grew by 105% and net revenue grew by 167%. This proves that we are well-positioned to meet the needs of our clients, and we offer superior services and cost efficiency, which are allowed by direct consumers. We have grown organically by 40%, way above the market growth, which was 13% in 1Q.

Adjusted EBITA has also grown, especially because of the dilution of SG&A. And this should continue to grow in the next few quarters with the dilution of SG&A. Nonrecurring expenses in the quarter are related mostly to the M&A, and with no cash effect on the Company.

On slide 11, we can see some other indicators which are very relevant for our business. The increase in take rate reflects a greater proportion of B2C the companies acquired and the effect of the cross-selling of payment services and logistics in the client base, especially in B2B.

Our B2C clients tend to have a higher take rate because they contract more verticals than B2B clients, which are now focusing on Infrashop. This creates an opportunity for cross-selling, especially of those products that we have in Infrapay and Infralog. This is one of the main reasons why we have seen a growth in our TPV.

The change in the mix between B2B and B2C has also influenced the behavior of the gross margin. Despite the high up take rate, normally, B2C clients tend to have a lower gross margin than B2B because they contract more products and services in our verticals, especially Infralog.

The reduction in the gross margin was offset by a significant dilution of SG&A, as you can see in the numbers of this quarter relative to 1Q22. If we take out the impact of depreciation and amortization, which has no cash impact of our SG&A, we notice that the reduction of SG&A is even higher than our accounting numbers show. It went from 53% in 1Q22 to 40% in 1Q22, an expressive gain of 13 p.p. in just one quarter after our most relevant M&A with Synapcom.

We still have a lot of room to reduce costs considering the synergies that we have mapped out and that will be executed throughout the year.

On slide 12, we see the net profit breakdown. In 1Q22, the adjusted net loss was R$31.9 million, in view of the increase in financial expenses, with the increase of interest rates and the leverage relative to last year, when we add the nonrecurring and non-operational expenses relating to the M&A, we have a net loss of R$59.6 million. These nonrecurring expenses are merely accounting expenses, which have no cash effect.

On slide 13, you see our investments. As we have said in other calls, our CAPEX is basically employed in infrastructure and technology.

As regards infrastructure, we had an expense of R$7 million in 1Q, slightly above the R$4 million we saw last year. Unlike last year, when the investment in infrastructure was directed to expanding the logistics grid, especially after the IPO, this year, we are going to focus on increasing productivity and verticalizing our DCs to maximize synergies and consolidate the DCs that are in the same region.

Even with the consolidation of the distribution centers, we still have capacity to consolidate our growth plans and increase the profitability of our logistics grid. Our main investment in 1Q was technology, as you can see on the graph, and we invested R$37 million. The growth relative to last year has to do with the development of our omnichannel platform to make it even more disruptive.

On slide 14, you see the cash and net debt. Our cash position ended 1Q practically on the same level as 4Q21, in the region of R$200 million reais, which is a very comfortable position. Net debt grew to R$142 million, as we must make some payments towards M&A.

In addition to the loans and to the cash, the Company also has credit lines that have been approved or contracted with top tier banks in Brazil for R$350 million reais, with costs at the same levels as the other loans we had, with an average term of two years.

Now I turn the floor over to Fabio Bortolotti, who is going to comment about ESG.

Fabio Bortolotti:

On slide 16, you see our ESG agenda. We have collected food and we have supported a program to train leaders with Alibaba. This quarter, we also improved our governance. We approved the fiscal council and the remuneration committee who will assist the board in determining the model of compensation and the stock option plan which was approved in the shareholders' meeting.

As we said to the market before, this plan will have very clear and transparent rules, which are available already, and we focus on attracting and retaining talent to align the beneficiaries of the program with the shareholders.

On slide 17, you see here our governance structure, which is more robust than it used to be, with the fiscal council and with the compensation committee. This structure abides by the best corporate governance practices and has independent members in all the committees and the Council. We abide by the Novo Mercado rules.

On slide 18, I summarize the main points, and I would like to highlight that this is a unique moment for us. We are expanding, we are capturing market share, and we are growing consistently above the industry levels. And this has to do with our business model, which is increasingly attractive because of our scale and our level of services.

Our focus, in addition to continuous growth, is a relentless pursuit of better margins and efficiency. This will be allowed even more with the M&As and the gains of scale.

We are now going to start the Q&A session.

Christian Faria, Itaú BBA (via webcast):

Organic growth has accelerated versus growth in 4Q, although 1Q is seasonally weaker. What are the main drivers, and how do B2C and B2B work, especially as regards organic growth?

And then, the expansion of the take rate. Are we going to see further growth in the next few quarters? And what would be a normalized level?

Raffael Quintas:

I will start by answering, and then I will turn the floor over to Eduardo or Fabio. If I look at the organic growth and compare B2B and B2C and why this has been accelerating, in the B2B it is because of the ramp up of projects and the clients that are now in our portfolio and base last year and this year.

B2B takes a bit longer for projects to ramp up and grow, but we see this happening now, especially in 1Q. The 65% growth in B2B was 100% organic. The companies we acquired last year focused a lot on B2C.

And as regards B2C, the increase in organic growth has to do with the macroeconomic scenario and the cost pressure. We see our clients migrating to direct to consumer. So, they not only migrate to e-commerce, but within e-commerce, we see a migration for sales on marketplaces to avoid pay fees, basically, to the direct-to-consumer channel, which is where we operate and where we are strong.

So, I think the macroeconomic scenario is challenging, but brings a lot of opportunities for us, especially for those clients who want to reduce costs.

As regards the take rate. The growth, in addition to cross-selling, has to do with the mix between B2C and B2B. And with Synapcom, they brought in a B2C client base with a higher take rate. So, we expect an increase in take rate relative to 1Q22. And going forward, I believe we will see the take rate hovering at that level, although any fluctuation in the take rate will be the consequence of a mix of channels and clients.

We are not giving any discounts of our take rate. It is much the opposite. We have been passing on cost increases, especially at Infralog. So, any fluctuation that we might see has to do more with the mix than with any policy towards reducing prices or take rate.

Eduardo Fregonesi:

And just to add to what Raffael said, the take rate of B2C is higher than B2B, and this does not reflect on the gross margin. The higher take rate does not mean that the margin is going to be higher.

One of the reasons for our strong organic growth is that B2C has not matured as much as e-commerce. So, the growth of our clients tends to be above the market levels, and we also have new clients that we are bringing on to our base.

Vitor Tomita, Goldman Sachs (via webcast):

How do you see the trend for GMV, same stores to B2B and B2C? And what about the comparison year on year? Is it a more difficult scenario, given the reopening of brick-and-mortar stores? And what is the need for CAPEX this year?

Eduardo Fregonesi:

I am going to answer the first question. What we saw was in 2020, we saw an exponential growth in e-commerce, and last year, in 1Q, obviously, we had a very strong growth, which was pre-pandemic, and then in 2Q the growth was slower.

So, we do not see the effect of open physical stores. This year, we see a growth in the market above two digits, but it is a stable growth. But our growth tends to be much, much higher than that. We have global brands. We have important clients who plan to grow very strongly this year and in the next few years. So, the trend for us is to grow above market levels.

Raffael Quintas:

As regards CAPEX, if we think in terms of infrastructure and technology, in terms of infrastructure, the CAPEX level should be slightly below last year, but with a different profile. Last year, we invested a lot in expanding our logistics grid. We opened DCs in other regions of Brazil to increase our footprint. Not only DCs but stores as well. We invested in dark stores, we reached the 18 dark stores at the end of last year, and this year we no longer need to increase the number of DCs.

What we want is to increase the profitability of DCs, invest in automation and gains of efficiency. And the idea is to verticalize some of these DCs to try and maximize synergies and consolidate the DCs that are in the same region.

As regards technology, in 1Q, we increased our investment in technology, especially in our platform. We should continue to invest into 2Q, and then in 3Q, we should see a similar level as the second semester of 2021, in terms of investment in technology.

Gustavo Engellender, Clave (via webcast):

Could you explain what the M&A expenses would be that explain the difference between the EBITDA and the adjusted EBITDA? There was no major acquisition in the quarter, unlike 4Q.

Infracommerce:

As we said, Gustavo, we acquired in the quarter, Tevec in January this year, and we had costs relating to this acquisition. Advice, due diligence. But this was not the major nonrecurring expense. The major nonrecurring expense has to do with the M&As carried out last year.

Part of the earnouts that we pay to our M&As are linked to the permanence of the executives in the Company. And we do this on purpose, to keep talent once we acquire a company. But from an accounting standpoint, because part of these earnouts is linked to the permanence of executives, we must post this under compensation. And this is only for accounting purposes, although there is no disbursement of cash.

These earnouts have a date for liquidation, so we account for it as a nonrecurring expense, and under other expenses, noncash, such as stock options, which are nonrecurring expenses as well.

Victor Ricciuti, Credit Suisse (via webcast):

Good afternoon. We are seeing Infracommerce have its GMV growing way above the market levels. Is this going to remain in time, or is this driven by a specific factor now?

Eduardo Fregonesi:

This has to do with what we have already said before. We grew exponentially through M&A. And organically, we grew 3x what the market grew. The market has been growing 13%, but we grow same-store sales above 20% with the same clients, with the current clients, and we have new clients joining us.

Every quarter we disclose the number of clients, and it is it is a major driver. And the clients who contract the full ecosystem, which is what we used to call full commerce, they have a project. From the time they closed the deal to go live, three- or four-months elapse. And all the deals in the 1H will have an impact on the 2H, and on the second year, which is the full year of the new client.

So, in addition of growing faster, we also feel comfortable in believing that our organic growth will continue to be above the market in the next few quarters, and maybe years, because B2C is less mature as a market than the major e-commerce players and the marketplaces. So, because it is a less mature movement, the growth rate is a lot higher until the market matures.

Fabio Bortolotti:

I would just add that, in addition to this high growth of B2C, which should remain so, we also have B2B and LATAM, where the prospect of growth is extremely high. All of this allows us to think that our growth should be above market levels for a long time.

Eduardo Fregonesi:

Yes, Bortolotti, that is exactly right. In B2B and LATAM, the potential for growth is a lot higher. We have benchmarks for B2C, but B2B is just beginnings. We do not have clear numbers, but this market is going to go digital, and we have opportunities for organic growth, which are even more exponential on B2B and in some countries in Latin America, where we have just started to operate.

So, we expect strong growth as well in LATAM.

Raffael Quintas:

Since there are no further questions, I would now like to end this call, congratulating Kai on the birth of his son. We tried to do our best in his absence. And we would just like to stress that we are very excited about the perspectives, and the outlook is good for us.

There are challenges in the macroeconomic scenario, but this brings us opportunities. Our clients are looking for efficiency, for cost reductions, and our business model allows them to have exactly that, with superior quality, the quality that Infracommerce delivers.

We are also focusing 100% in delivering greater margins in the next few quarters in a pursuit of efficiency and cost reduction. We have stopped a little bit of the M&A efforts and we are looking inwards to reduce costs and increase margins.

We are bringing clients also to our base. Our focus in efficiency will not hurt our organic growth. We have been investing in our commercial efforts. In 1Q, we acquired a record number of new clients, which reflects the success of this strategy. We are also focusing on our modular strategy.

So going forward. The outlook for organic growth is very encouraging. From a cash perspective, which is always a concern, the Company has been doing its homework, not only to make these gains of efficiencies translate into a more robust cash generation. We want to have a free cash flow that is positive next year, but also, we have been working with our partner banks so that we have enough credit to honor our commitments. We have R$350 million to honor our commitments.

I do not know if. Bortolotti or Eduardo wants to add anything.

Eduardo Fregonesi:

No, that was all. We would just like to thank you all for participating. I hope we have been able to help, although Kai is not available. He wanted to come into the call, but we he said “no! Enjoy this family time”.

Fabio Bortolotti:

Mariana, I, the IR team are available, should you want to contact us. We are entirely available to explain any points you might want clarification on. Thank you, very much, and good afternoon.