

Local Conference Call
Infracommerce (IFCM3)
1Q21 Earnings Results Call
May 17th, 2021

Operator: Good morning everyone. Welcome to Infracommerce's first quarter 2021 results conference call.

My name is Jandira, and I will be your operator for today. This event is being recorded and all participants will be in a listen-only mode during the company's presentation until we start our question answer session. Should any participant need assistance during this call, please, press star zero to reach the operator.

I would like to turn the floor over to Mr. Fábio Bortolotti, Investor Relations an M&A Officer.

Mr. Bortolotti, you may proceed.

Fábio Bortolotti: Thank you, Jandira. Hello everyone, thank you for joining us to our first earnings conference call. The results that we announced this morning, the audio of this call and the slides that will reference are available in our IR website.

Joining me today are Kai Schoppen, our founder and CEO, and Raffael Quintas, CFO. After the presentation we will be available for the Q&A session.

Before I turn the call over to Kai, I'd like to caution you regarding possible 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.

Forward-looking statements are no guarantee of performance, they involve risks, uncertainties, and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results of the company and may lead to results that differ materially from those expressed in such forward-looking statements.

Also, during the course of the call, we will discuss non IFRS performance measures, which should not be considered in isolation. For conciliation of such non IFRS measures, refer to the tables at the end of our earnings release.

With that, I turn the call over to Kai. Kai?

Kai Schoppen: Thank you, Fábio, and thanks everyone for joining us for Infracommerce's first earnings conference call as a publicly traded company.

This is a very important moment for us. As you know, our IPO was just another step towards becoming the largest white-label digital ecosystem company in Latin America and we're very happy for having new qualified investors beside us.

It is a pleasure to share our first quarter 2021 results with all of you today, but before we do that, I'd like to start by thanking our team at Infracommerce, our employees that we call "infras" for many reasons, but specially for their dedication taking great care of our customers and our customers' customers every single day. I'm very proud of what we built together since our foundation in 2012, we have had an accelerated pace of growth year after year while we also created our own way of doing our own culture focusing on excellence and innovation, and that's what motivates me to wake up in the morning and come to work. So, thank you for that!

And thanks to you we have started the year delivering sound results in the first quarter, which is the topic of our call today.

The digital market continues to grow and evolve. As you can see on slide number 4, Infracommerce offers a complete ecosystem of integrated digital solutions, we are specialized in an innovative business model that we call Customer Experience as a Service. Customer Experience as a Service (or CXaaS) is based on the principle that in order for a brand to be successful in e-commerce it needs an integrated solution at a multi billionaire scale to be able to compete head-to-head with market giants. So, we believe that a brand with a small scale that has to deal with 40 different suppliers who don't talk to each other can hardly reach on its own to the levels of excellence that is increasingly demanded by e-commerce consumers nowadays.

As you know, our business model goes beyond a simple direct-to-consumer approach (or B2C), we also help industries in their digitalization journey and B2B disintermediation. This is a global megatrend of which we are a reference here in Brazil of this B2B commerce, our business model is based on three pillars: Omnichannel; technology with BI; Fintech; and fulfillment. And Infracommerce offers this in a completely integrated manner, as I mentioned previously.

So, in analogy with Formula One, in Formula One the cars are a wonderful and really important tool, but we offer not only the car as a tool and the pilot, but the whole crew working behind the scenes to guarantee the success of that Formula One team, so changing tires in two seconds, refueling in three seconds measuring the temperature of the track, testing aerodynamics, so our goal is to guarantee the success in e-commerce in addition to offering great tools.

And that's the spirit with which we deliver excellent levels of service, we are a reference company for Customer Experience as a Service, and we have been incorporating this mission and we have made this part of the name of the company. In 2020 we were elected by the Brazilian Association of E-Commerce as the best e-commerce company in Brazil in level of service. So, that shows we are on the right track, this excellence that we offer to customers is translated into increasingly significant numbers, such as the once we achieved in the first quarter of 2021.

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On slide five you can see that our net revenue totaled R\$73 million, up 69% compared to the first quarter of 2020, we hit a record volume of transactions in our ecosystem in the first quarter with a total GMV of 1.4 billion in the first Q of 21, a 42% increase versus the first Q of 20. Our TPV grew by 65% totaling R\$132 million and we processed over 14.3 million products, a 49% increase compared to the same period last year. Our gross margin was 46% this quarter and our adjusted EBITDA was 1.5 billion.

On May 4th, 2021, we concluded our IPO, a very important step forward in our mission.

On slide number 6, you can see an update about Infracommerce during the first three months of the year. Our B2C solutions continue growing at an accelerated pace and have had an increase of 83% in revenue year over year, our B2B has had a strong expansion in customer base growing by 50% compared to December 2020. And in the B2B we're in an expansion phase of our business unit. Considering only the customers that we captured this quarter in B2B, we have had a GMV generation potential of over R\$2 billion after the ramp-up periods.

Another focus of Infracommerce has been on encouraging cross-sell, we've been able to increase our take rate by 20%, achieving 5.3% in the first quarter of 2021. Our customer concentration keeps dropping quarter after quarter with the top 2 customers accounting for 28% of our net revenue in the first quarter of 2021, a reduction of 14 percentage points compared to 42% in the first quarter of 2020.

As I always tell you, Infracommerce likes to take care of people and contribute to society in addition to doing business, so we're very proud to say that we support the *Panela Cheia Salva* movement with a website that is programmed and managed by Infracommerce. This project aims to combat hunger in poor communities in Brazil and is a result of the joint work of three strong Brazilian NGOs: CUFA, Gerando Falcões, and the National Anti-Racist Front. This has been very successful and has already collected over R\$55 million in donations.

As you can see on slide number 7, we have expanded our customer base going from 52 in late March 2020 to 239 in late March 2021. We launched two innovative modules of the Infra Shop B2B platform for sales via WhatsApp and our B2B hub bringing more digital solutions with more agility and best communication with buyers.

We have raised the bar for express deliveries in the city of São Paulo once again and we have established a new standard of same-day delivery for purchases made until 2:00 PM. This is delivered through our main distribution center. This express delivery option is already available for our customers.

In April, we opened our first guide shop solution together with Armani Exchange, this brick-and-mortar store giants technology payment and fulfillment provided by Infracommerce in which our customers' customer can try and see a selection of products from up close with a CX as a customer experience being used in the physical world, being made available in the physical world. So, after the purchase in the brick-and-mortar store, the products chosen are delivered at the customer's home through our existing e-commerce structure via Infracommerce.

The set of possibilities makes guide shop an amazing solution for our customers who want to grow in the physical world with less capital and less space needed to keep inventory. So, this is a very agile solution for customers to grow in the physical world leveraging our e-commerce solution.

I take this opportunity to invite all of you to get to know this innovation located near Morumbi Shopping Mall in the city of São Paulo.

Our Fintech continues to be a pioneer in the use of PIX, which is now also available in the stores of our B2B customers added now to the other 20 B2C customers that already have that type of payment available since the end of last year when we were also pioneers and the adoption of PIX in Brazil for our customers.

Now moving on to slide number 8, in line with our strategy of consolidating our leadership position in Latin America, in January 2021, we have formalized the acquisition of a controlling interest of New Retail company that operates in Argentina, Colombia and Chile under the brand name BrandLive and that has recently started operations in Peru as the main Customer Experience as a Service player in the region.

BrandLive now serves over 40 brands such as Samsung, Havaianas, Topper, Carter's, ASICS, and others. As you can see, a very important player. Our footprint in Latin America matches the increasing demand from our customers allowing for cross-sell in the same customers and positioning us as a digitalization partner for the whole region and not only for Brazil.

Now I'd like to turn the floor over to Rafa, our CFO, who will discuss our financial results.

Raffael Quintas: Thank you, Kai. Hello everyone.

As you can see on slide 10, we achieved solid results in the first quarter of the year, which is a reflex of the significant expansion of our customer base as well as cross-selling initiatives and an inexistent churn. So, our total gross income had a 60% growth allied to a 20% growth of the take rate registered in the period. The gross profit of the company also kept up with the growth with a 60% expansion compared to the first quarter of 2020 with sound gross margins of 46% last quarter. Our costs of operating expenses increased due to the increase in the number of sales as well as to the investments that we made in recent months to reinforce our administrative and commercial areas, as well as creating new areas that aim to prepare us to the new wave of growth that is ahead of us with the use of the IPO proceeds.

Adjusted for nonrecurring events related to the M&As and the IPO, our quarter's EBITDA was of R\$1.5 million, up 21% against the first quarter of 2020 representing a margin of 2% in the first quarter of 2021. Without this adjustment, our EBITDA would have been R\$14.2 million, representing a margin of 19.5% in the period.

Now, as you can see on slide 11, we have achieved in the first quarter of 2021 a net income of R\$3.9 million compared to a net loss of 7.5 million in the first quarter of 2020. Investments in the quarter totaled R\$14 million focused mainly on technology products aiming to further

enhance our platform, as well as investments in infrastructure to expand and automate our distribution center setting us apart as a leader of CX as a Service in Latin America.

With regards to cash on slide 12, you can see that even in a quarter that is usually weaker when it comes to operating cash generation, we had a positive cash generation adjusted for nonrecurring events. This is a result of our constant effort in elongating payment terms and improving working capital. The main reasons to reduce the total cash that we saw in the first quarter are related to the payments that we made to increase our participation in another company as well as Capex and other IPO expenses.

So, we closed the month of March with R\$40 million in cash, almost double the amount registered in the first quarter of 2020 and this is a snapshot of our cash balance in March this year, which does not include the IPO proceeds raised by Infracommerce in May.

On slide 13, we present a brief overview of our restricted offering 476. As Kai said in the beginning of the call, we're very happy about completing our IPO and listing Infracommerce in the Novo Mercado segment of B3, the highest level of corporate governance in the Brazilian Stock Exchange. With the issuance of 54.4 million common shares, we raised R\$831 million in net proceeds, which will further boost the organic growth of our business through investments mainly in technology, platform and Omnichannel solutions, and will also accelerate our growth through strategic M&As focusing on expanding GMV complementing our ecosystems and others.

Now I turn the floor back to Kai for his closing remarks before we start our Q&A session.

Kai Schoppen: Thank you. Well, as you can see, we started 2021 fully dedicated to delivering results and to offering great customer experience to our customers. There are several innovations happening in the B2B arena, Fintech, and logistics, and it is our goal to be always at the forefront offering the most innovative solutions to our customers.

Now I'd like to turn the floor over to Jandira, our operator who will open the Q&A session.

Question and Answer Session

Operator: Thank you. Ladies and gentlemen, we'll now begin the question-and-answer session. If you have a question, please press star one. If at any time you would like to remove yourself from the question in queue, please press start tow.

Our first question comes from Eric Huang, Eleven Financial.

Eric Huang: Good morning everyone, thank you for taking my question. First, congratulations on your IPO. I actually have two questions. the first one: can you give me more information about the take rate advances? What were the main drivers that enabled this expansion to take place in the first quarter?

Now about the B2B ramp-up that you mentioned with the addition of these six new customers, can you tell me a bit more about your ramp-up expectations? And looking at the

history, what do you expect from now on?

And I would also like to understand your view for the performance of the second quarter considering GMV and TPV indicators. Just so we know what to expect for the second quarter of the year. Thank you very much.

Raffael Quintas: Well, Eric, thank you for your question. So, starting with your question about the take rate, as Kai I mentioned in the beginning of the presentation, cross-selling is one of our main focuses as our customers and stores hire more services from Infracommerce, it's just natural that our take rate will increase. In B2C, our customers usually hire the full stack, which is the platform, Fintech, and fulfillment. In B2B, we've been giving priority to our platform and today 100% of our B2B customers use Infracommerce's platforms. This makes us an absolute market leader in B2B. And in recent quarters and from now on as well, we've been encouraging this cross-selling, this has been working really well as we can see in the growth of our take rate.

So, that's the main reason why we saw this B2B growth. And now Kai will answer the second part of your question.

Kai Schoppen: Well, I actually divided the second part of your question into A and B: A about the ramp-up of the B2B customers, as I said, we have a great GMV potential there and I also talked about that during our roadshow. A B2B project may take two to three years to achieve its full scale because in the end of the day it's a marketplace that you operate together with the industry and sometimes you have multiple logistics centers from the industry or multiple logistic centers of the distributors in the industry, and at a second moment, our logistics centers of fulfillment at Infracommerce. So, you may have 50 or 60 GMV systems to integrate into this marketplace and you need to train distributors throughout all Brazilian regions that need to learn how to operate as a marketplace cell.

So, this is something that takes a while, but once it happens, you know, we're talking about a recurring revenue and the projects that we have today are projects that started around 2017. So, looking at our history, we have this playbook of how to have success in a B2B project, so we've been able to accelerate and reduce the ramp-up period, but answering your question, it may take two to three years for us to achieve the full potential of this GMV.

Now the second part of your question was about the expectations for the second quarter. I can't say much about the future, but just to give you an idea, if you remember, the second and third quarters of 2020 we were in full lockdown and I think that we are now seeing trends to reopen the economy, so our expectations are not that strong for the second and third quarter because we believe that the economy will start reopening gradually, better than the closed economy that was in 2020, but we do expect to grow compared to 2020.

Eric Huang: OK, great, thank you.

Operator: Ladies and gentlemen as a reminder, if you wish to pose a question, please, dial star one.

The next question is by Carlos Sequeira, with BTG Pactual.

Carlos Sequeira: Hello everyone, hello, Kai, Fabio. Well, a question I'd like to ask is about B2B. Up until now, we've seen that most of the solution was the platform itself offered by the company, so my question is: what can we expect in terms of logistics solution coupled to the platform to boost the take rate? Do you have any expectations for Infracommerce to start offering other solutions in addition to the B2B platform it already offers? That's my first question.

Now my second question is about future M&As. What can we expect to the coming months? Are you focusing more on logistics, more on technology, more abroad? What can we expect for the coming months? Thank you.

Kai Schoppen: OK, great. Well, about the B2B platform, our focus right now is clearly on expanding the technology. At no point in time we insist customers to accept the Fintech solution and not the logistics solution either, we focus on selling our big data solution with our SaaS platform because at the end of the day, we have a competitive edge in this market and our goal is to grow based on that ,and this is how it's going to continue for the next one to two years for sure because this is quite an incipient market, most of the industries already have a B2C platform, but not a B2B platform, so distributors often don't have the B2B and e-commerce platform to sell the products either.

So, this is a great opportunity and that's why we're focusing on technology and then cross-selling will come second, but I would say that we've been able to advance a lot in the fulfillment segment by Infracommerce and B2B as well. However, the initial conversation with new customer does not focus on that.

There is like one single slide in our material that says that we provide fulfillment by Infracommerce, but we're not focusing on selling that solution, the cross-selling process happens naturally, once we have customers data, we can show them their weaknesses and we can show them where their service level fails, we can show them where they don't have a good market share. This is what we call a "white zone" in the market, and naturally, after one to two years, this is a conversation that happens naturally.

This is how we've always done things and we've been growing a lot like that, so this is what we're going to keep on doing.

Now about M&A, our focus this year will be in Brazil. We acquired New Retail, BrandLive, but the consolidation process will be more focused on Brazil for now, and like a sad, in the roadshow we have these three pockets: consolidation; technology; and data in Latin America.

So, this is what you can expect from now on what we said during the roadshow: technology, data, and consolidation in Brazil.

Carlos Sequeira: Thank you, Kai.

Operator: Ladies and gentlemen, this concludes the Q&A session. I would like to turn the floor over to Mr. Kai for his final remarks. Kai, you have the floor.

Kai Schoppen: Thank you and thank you all for joining us for our call today. If you have any questions, please, get in touch through our IR team and we'll be happy to help you. Have a great day, be safe and be well during this period that we expect to be the end of the pandemic, and see you soon, as you know, we're all open and transparent to answer all of your questions. Bye-bye, take care!

Operator: Ladies and gentlemen, this concludes Infracommerce's earnings conference call. Thank you very much for your participation and have a good day.