

Conference Call Transcript
Infracommerce (IFCM3)
2Q21 Results
August 16, 2021

Fábio Bortolotti:

Hello, everyone. Thank you so much for joining us for Infracommerce's 2Q21 earnings conference call. For those of you who do not know me, I am Fabio Bortolotti, IRO at Infracommerce.

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

Presenting today will be Kai Schoppen, our founder and CEO, and Raffael Quintas, our CFO. After the presentation, we will be here for the Q&A session. If you would like to ask a question, please use the chat box on 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. These are 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 because 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 could also affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements.

Also during the call, we will discuss non-IFRS performance measures, which should not be considered in isolation. For a conciliation of the non-IFRS performance measures, look at our earnings release.

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

Kai Schoppen:

Thank you, Fabio. Hello, and thank you, everyone, for joining us today. We are very happy to share Infracommerce's 2Q21 results with you. This is the greatest quarter in our history, and we are very proud of our results.

As an introduction, I would like to warn you that that the 2Q20 was a quarter in which we grew by 120%. So we are comparing to a very strong 2Q we had in 2020, but even so, we were able to deliver significant growth, which is 100% aligned with our internal plan.

This quarter, we continued focusing on our strategy of expanding our ecosystem, always maximizing consumer experience excellency. CX as a service, or customer experience as a service, is part of our Company's DNA.

I would like to start by thanking our team of Infras for the dedication, efficiency and care towards our customers, and for always try to exceed their expectations, keeping at the same time a focus on innovation. This is our way, and I am very proud to be building this Company together with all of you.

As you can see on slide number four, we like to reinforce the value proposition of Infracommerce. Infracommerce is an ecosystem of integrated digital solutions, a mix of an omnichannel platform with a layer of data, a fintech and fulfillment. This is what we call customer experience as a service at Infracommerce.

Since we founded Infracommerce in 2012. We have had as a guiding principle that, in order to win in e-commerce, brands need to focus on end consumers. And in order to do that, they need an integrated solution that will help them solve the complexity of managing diverse suppliers, systems and channels. And for that, they need large scale.

This challenge brands face increases year after year because we see a new introduction of sales channels like social commerce, live commerce, WhatsApp commerce, we need to integrate brick and mortar stores, we need to provide B2B commerce.

So at the same time, as consumers are becoming more demanding in terms of delivery times and a seamless experience on the websites, the complexity of the channels is growing. Our goal is to solve this digitalization journey and optimize go to market for the brands and industries, our customers.

So we focus on multiple verticals at the same time, like market platform, a search offer, the different solutions that brands need in order to have a successful e-commerce. But we focus on creating a horizontal, 100% integrated solution. And customers can benefit from our scale.

This level of service that we deliver is recognized by the Brazilian Association of E-commerce. In 2020, we were awarded as the best level of service in the Brazilian e-commerce market.

And as you know, our mission is to digitalize the go-to-market, and that goes beyond the famous and well-known B2C e-commerce, which has sales to individuals, but it also covers the digitalization of the supply market channels, which we call B2B, integrating industries, wholesalers, distributors, with thousands of small Brazilian retailers. We have been pioneers in this in 2016, and we now have these two different business units, B2B and B2C.

This segment is highly relevant for us, the B2B segment, because, as I said earlier, we not only are pioneers in this area, but we have also become a reference in terms of excellence of execution and platform technology.

Our business model continues to be increasingly disruptive as we grow and add new features to the ecosystem. This can be seen in our performance numbers that will be shared with you today. And more specifically, the members of the 2Q21.

Now moving on to slide number five, on the first chart, you can see that we have achieved R\$1.5 billion of GMV in the 2Q, up 29% compared to the growth we achieved in the previous year. Our net revenue hit the record of R\$79 million, an increase of 20% compared to the 2Q20.

In the 1H21, we had a net revenue of R\$152 million, up 39%, which is slightly above our expectations. The performance of the 2Q21 can be considered even more robust, considering that in the 2Q20 we grew by 122% in our revenue compared to the 2Q19. Thus, our annualized growth from the 2Q19 to the 1Q21 exceeds our historic average and reaches the impressive level of 63%. 63% annualized growth from 2019 to 2021.

This GMV volume and the record revenue show that we are on the right track, and that the advances of digitalization seen last year has come to stay.

On slide number six, we share other highlights of the quarter. Starting with TPV, or total payment volume, our growth was very well aligned with our revenue, a 21% increase compared to the values of the previous year, totaling R\$183 million.

We have delivered over 19.5 million products representing our customers, which is also a record for the period. That is a 66% increase compared to the previous year.

We are also very proud because the two growth levers planned during our IPO are bringing the robust results that we expected. On one hand, we have the acceleration of marketing and sales, and on the other hand, inorganic growth in our growth mix.

The intensification of marketing and sales actions resulted in an all-time record of leads generation and conversion this quarter. As a consequence, we closed the quarter with 268 customers in our portfolio. We will go back to that topic later on.

As to the inorganic growth plan, we announced the acquisitions of Summa and Tatix in recent weeks. These acquisitions are not yet reflected in the numbers of this quarter. We will start consolidation in the coming quarter only.

For the second year in a row, Infracommerce has been considered one of the Best Companies to Work for in Brazil by GPTW, and this is a result of the engagement of our team, of a 1,637 Infracommerce employees who embrace the cause and who are passionate about our way. This is the way we call 'our culture'.

On slide number seven, we can see some operational performance metrics. We have had a solid performance in our B2B solutions, with an organic growth that exceeded 50%. And even though we grew a lot, we launched two very innovative modules for our platform. The first one is a sales virtual assistance that uses artificial intelligence, and the other one is a B2B hub that enables our customers to plug to different channels.

So you do not have a one to one connection in our B2B platforms only, but the seller can actually act on different channels. Thus, we are consolidating the leadership and the position at the forefront of this e-commerce market.

As I said last quarter, one of our focuses has been on boosting cross-selling, especially among our B2B customers. This cross-selling is already impacting our take rate, which totaled 5.2% this quarter, compared to 5% in the same period last year. So we also see an increase in the take rate, not only growth of the GMV.

And just like in the previous quarter, something that we are also focusing on is our customer concentration. The customer concentration continues decreasing and the annual comparison with our top two customers now is accounting for 28% of our net revenue, compared to 33% in the 2Q20. So customer concentration is also dropping, aligned with our plans.

We have concluded the integration of Pier8, focused on cost and revenue synergies, and also cross-selling with other technologies and services to their customer base to generate more revenue.

We have already optimized the back office teams and incorporated the operations in our logistics infrastructure, integrating their Tamboré distribution center to our Embu premises, and we will continue to accelerate cross-selling in the data platform, omnichannel fulfillment and fintech in their fulfillment and payment base.

Now, moving on to slide number eight, as we mentioned previously, our commercial strategy has been very successful, resulting in the addition of 43 new customers to our ecosystem this quarter alone. This is a new record.

I would like to remind everyone who were part of our road show for the IPO that, at the end of the road show, we had in total 70 customers, and this quarter we added 43 customers. At the end of last

year, the Company had only 70 customers. So you can see that this is very much aligned with our strategy of expanding our range of customers, focusing on medium sized companies to diversify our portfolio.

This performance will not only contribute to the results of the 2Q21, but it also establishes a solid foundation for our future organic growth.

On slide number nine, I would like to share a major news with you related to the expansion of our B2B platform. This is a detailed case that shows how our Company is positioning itself in the B2B world today.

We have been talking to ABAD for a long time now. ABAD is the Brazilian Association of Wholesalers and Distributors of Processed Goods, and they announced this week the creation of a B2B marketplace for their members. We will be in charge of the whole B2B platform technology, focusing on supplying thousands of small markets and retailers. This project will give retailers access to a broad range of products from different brands and industries in one single location, which is the goal of all marketplaces.

This partnership will benefit not only our platform, but also our fintech. As you know, we also offer credit as a service, working capital and payment solutions focused on B2B, and these solutions will also be benefited by this partnership.

Just so you have an idea of the size of this opportunity, I would like to share a few numbers with you. We will have access to about 4,000 distributors and wholesalers who are members of ABAD. And together, their revenue is of around R\$288 billion in 2020, according to ABAD numbers. Today, we estimate as a company, the penetration of e-commerce, of that total base of R\$288 billion, at around 3%.

That would be a similar level to the penetration that we already see in the B2C world today. We see a level of around 10% to 20% in the B2C e-commerce penetration. So I believe that we are going to see great advances of those 3% going towards 10% or 20%, and these advances are very relevant, especially when we compare it to the 150 distributors that we have integrated into our platform today. So we are also going to expand the base of distributors connected to our B2C platform.

We are very grateful for ABAD, represented by his president, Leonardo Severini, and supported by Eduardo Terra and German Quiroga, who chose us among eight platforms that participated in this RFP that lasted almost a year. I hope I have been able to give you an idea of the magnitude of this case for the future of the Company and for the future of ABAD as well.

As part of the strategy to optimize our service level, we have expended our logistics grid. We have opened three new distribution centers, located in Rio de Janeiro, Salvador and Extrema in recent weeks. In Extrema, the first customer is SBF Group, operating with Nike.

We closed the quarter with seven dark stores strategically located throughout the country, and we are making investments to open by the end of the year, at least another distribution center in Fortaleza and another 11 dark stores.

On our website, you can see the map of Brazil, showing the location of those stores and the delivery times, and same day delivery numbers. I will give you further details about that later on.

As a result of these investments, we have been able to achieve 57% of deliveries done in up to 48 hours throughout the whole Brazilian territory. In São Paulo, 99% of the orders are delivered within 48 hours. Once again, that shows our commitment to customer experience as a service.

This logistic footprint, allied to a significant reduction in delivery times, contributes to an increase in the conversion rate of our customers, and it also brings more qualitative results in the form of an increase in our NPS.

Now let us move on to slide number 11 to talk about our fintechs highlights. We have launched our first FIDC, geared towards credit and working capital expansion for thousands of small and medium sized retailers for our B2B e-commerce clients. Our goal is to achieve at least R\$500 million in this exclusive FIDC in the next 12 months. Our focus is to give access to credit to small retailers.

That is one of the main obstacles that our B2B segment customers face for growing. We set up our fintech because we identified this problem in the market about two to three years ago. So this is a logical expansion of our B2B strategy.

Now on slide number 12, to complement our ecosystem, we are very proud to highlight our most recent acquisitions, Summa and Tatix. With Summa, we have enhanced the technological reach of our ecosystem, with gains of scale in B2C and B2B e-commerce projects in Latin America.

And more specifically, Summa brings a proprietary solution of seller centers for marketplaces. This tool will be key to strengthen and accelerate the implementation of our B2B marketplaces in Brazil and in Latin America.

They will also enable us to create a new software development hub with 120 developers in Argentina, in addition to the over 300 we already have in Brazil. You heard in recent weeks and months that we have hired good software developers. This is increasingly hard, but since we already have operations in Argentina, we were able to create this new development hub there.

This week, we also concluded the acquisition of Tatix, a company that has vast experience and connections with marketplaces and sales tools that complement ours, as well as a proprietary system that enables an uberization process for orders and omnichannel.

So we have now the opportunity to open additional channels. With this acquisition, we have consolidated Infracommerce as the largest customer experience as a service player in B2C in Brazil and Latin America. The merger of these businesses will enable us to capture many other incremental synergies, as well as the opportunities of growing in other channels, as I mentioned.

With these acquisitions, our recurring annual revenue has achieved R\$436 million with our existing customers, not yet, considering the 43 new customers that we have acquired this quarter.

Now I would like to turn the floor over to Raffael, our CFO, who will give you further details about our financial results.

Raffael Quintas:

Thank you, Kai. Good afternoon, everyone. I would like to emphasize that the results that I will share right now do not contemplate the most recent acquisitions that Kai has just mentioned.

As you can see on slide 13, our performance in this quarter is a reflection of the significant expansion in our customer base, excluding the 43 ones that we acquired this quarter, as well as the cross-selling initiatives and a very well controlled churn. Just like in the previous quarter, we had zero churn in our original customer base.

We have had a GMV of R\$1.5 billion, 29% more than in the 2Q20. Net revenue had an all time record, reaching R\$79.2 million, up 20% compared to last year. We need to remind you that the 2Q20 was highly boosted by the covid-19 pandemic, and that is when we achieved the 122% growth.

Just so you have an idea of the dimension of our results, we had a quarter that was even better than the quarter that included the revenues coming from the Black Friday and Christmas last year. We reached the end of the 2Q21 with gross profit of R\$36.4 million, a gross margin of 46%, which is in line with our recent levels.

This slight light reduction of the gross margins compared to the 49% that we had in the same period last year is related to an increase in preoperational costs connected specially to the expansion of our logistics grid. The reflexes on revenues will be seen in the next quarters.

As Kai said, this logistic footprint contributes to taking our customer experience as a service business model to different regions in the country and bring in additional revenue to our customers. Adjusting nonrecurring events related to the M&A and our IPO, the EBITDA this quarter was R\$2.1 million, incorporating the expansion that took place in 2020 and a corporate area, infrastructure that are the basis for our growth plan after our IPO.

As you can see on slide 15, this quarter, our CAPEX was R\$17.8 million, focused mainly on technology projects with the aim of further developing our omnichannel platform and expanding our logistics grid. We have opened new distribution centers and dark stores, as Kai mentioned a few slides ago.

This investment represented a growth of 91% when compared to the previous year, boosted by the factors I mentioned above.

It is important to emphasize that our strategy is to be closer to our customers, contributing to reducing delivery times, as we said previously, and leading to a significant increase in sales conversions and GMV.

On slide 16, you can see our cash numbers. Part of the IPO proceeds were used for M&A payments, the previous acquisitions that we made and debt amortization at our Company. We reduced our debt level from R\$71.9 million in December last year to R\$16 million only in June 2021, and we closed the quarter with a strong cash position of R\$757 million.

Finally, on slide 17, we would like to reinforce our commitment to continuing delivering our growth strategy. We have had solid growth this quarter, and which is something that is even more important, we had a record number of customers getting into our ecosystem. That will create the foundation for a strong organic growth in the future. We are sure that we are focusing on what is the core of everything we do: customer experience as a service.

So now we would like to open for questions.

Gabriela Morais, Itaú (via webcast):

Good afternoon, Kai and team. Can you tell us a bit more about the fulfillment platform performance, especially in B2B, and the Pier8 integration process with cross-selling and omnichannel? And how long will it take for Summa and Tatix to be integrated?

Kai Schoppen:

As you know, fulfillment for our B2B marketplaces is not our main focus of expansion. We like to implement the fintech technology and let distributors, wholesalers, distribution centers and industries themselves to perform the delivery.

So our focus is on expanding the platform, and not on expanding the B2B logistics centers. That would require a lot of footprint here in Brazil. And this can be done quickly in a collaborative manner.

The second part of your question is about cross-selling at Pier8. It is working really well. About 10% of their customers already have additional solutions deployed, and about 20% to 25% of their customer base are under negotiations with us. We have been able to take one significant customer from Pier to the full commerce offer, the whole package offered by Infracommerce. So this is happening as planned.

The third part of your question was about the time to integrate Summa and Tatix. With Pier, we learned about the PMI structure project. In the case of Pier, it took us around five to six months. We expect to do this faster in the case of Summa and Tatix. The meetings are already happening, and I believe that in three months' time, most of the integration will have already taken place.

In the case of Tatix, they have additional channels, but most of the operations are very similar. So, Infracommerce has lots of synergies with them in this way.

Guilherme Ebaid, Mar Capital (via webcast):

Can you give us further details about the organic growth and cross-selling between customers? Are you going through this ramp up of B2B customers? And also about the organic growth in B2B.

Kai Schoppen:

In B2B, we grew up around 52%, and in B2C, 13%. In the case of B2B, that was 100% organic growth. In the case of B2C, we have M&A included. And since we have a lot of cross-selling going on, it is very hard to see exactly what is organic and what is inorganic growth. But in two years, 66% annualized growth.

Now you are asking about the cross-selling, the ramp up of B2B customers. The major B2B marketplaces at Infracommerce not only have a standardized implementation cycle, but they also go through a ramp up phase.

Why is that? Because since this is a marketplace, you are onboarding distributors, wholesalers and logistic centers gradually. This is a gradual process, as I said. And even when you enable a new region with a new software, the marketplaces' customers need to migrate to the marketplace. We have supermarkets and farmers, and also small retailers that we serve. So they need to be convinced to be supplied through the marketplaces.

So the ramp up process to get to 100% of the potential of these marketplaces can last up to three years. So we have not gained or lost speed in this process, we have kept pretty much the same speed, adding five to ten cells of these projects a month. If you compare this to the B2C market, that may seem little, but with our implementation strength, in one year, we would be able to include all of them. We are not at full speed here because there is work related to regional training and engagement.

So we have achieved a good numbers. The total number of plug-in cells is much higher, about three to five in each one of the projects, and in an accelerated phase that can get up to ten.

Raffael Quintas:

I would like to add a comment here. The last quarter, we closed six B2B customers, with the potential of generating GMV of R\$2 billion to R\$3 billion. In the 2Q, we closed a higher number of customers than last quarters, both for B2B and for B2C. For B2B, one of these customers is ABAD, which has a huge potential, as Kai commented.

ABAD gathers about 4,000 members that together have an income of R\$288 billion. If we can digitize about 3% in the next two to three years, getting up to 10%, which is the B2C share, that will be huge.

ABAD alone can get to a GMV in the next three years that is similar to those six customers we commented about in the previous quarter.

So we are very excited about this potential and the ramp up they are going through.

Fabio Bortolotti:

Kai has mentioned that we have a B2B hub, this is a very important innovation. Our B2B customers first had to be brands that have their own relevant websites. But with this B2B hub, you open the market to any industry, because they can connect to any website or to any B2B marketplace.

Claudio (via webcast):

What is the profile of customers that Infracommerce has been serving? Is it small and medium businesses, or is it more enterprises?

Kai Schoppen:

Infracommerce is focused on medium sized and large customers. Our customers are medium sized and large industries, wholesalers, retailers. The idea is to help them gain footprint with the e-commerce solutions, disintermediating the supply chain.

Sometimes we talk about small retailers. For example, Unilever has a project called Buy Now, 'Compre Agora', in which Unilever and our customers buy now, and they will supply through this project small retailers. So we are working with medium retailers, but in B2B, we have this capillarity of thousands of retailers that buy our solutions.

Participant (via webcast):

You closed 43 new customers. Does that include Tatix's customers?

Kai Schoppen:

No. We are talking about organic customers that were added through our sales force and marketing teams.

Fabio Bortolotti:

These numbers of new customers do not include customers from Summa and Tatix. Summa and Tatix will only be included in the numbers from the 3Q onwards.

Bernardo Pardini (via webcast):

Congratulations us on the results and the partnership with ABAD. Can you comment on the earnout of the acquisition of Tatix? What is the additional value that you are expecting to pay? And what are the earnout targets?

Fabio Bortolotti:

We have publicized the acquisition price, and there is also a contingency share from R\$5 million to R\$35 million that will be defined at the end of June next year, so in 10 months.

The main metric is the revenue of current customers and future customers. So we have a few targets and thresholds. Depending on the numbers achieved, we have an earnout rate. The maximum additional value is R\$36 million.

Rafael Furlan, Norte Asset:

After the two acquisitions that you made recently, is your focus now on integration, or can we expect other M&A soon? Do you have any category in mind, like the acquisition of Pier, or a more complimentary acquisition, like in the case of Tatix?

Kai Schoppen:

In our road show, we announced a list of M&As that we were planning to do. I do not want to be very specific, but if you look at that material, you can do the math and you will see that we still have about one or two M&A transactions to be made by the end of the year. After that, we will stay with PMI for a few months.

A few weeks ago, we said that in our inorganic approach, we have three phases. In the first phase, we want to achieve what we have in this disruptive scale. This is a market with billions of orders, and our scale is really important to take our customers to a service level that can be comparable to those huge marketplaces' machines. And in order to do that, you need scale and logistics and payments and data and technology.

So the first phase always focuses on achieving this disruptive level of service. And then, we focus on integration, on capturing synergies, structuring, so that we are ready to add other services to our ecosystem. I am talking about artificial intelligence solutions, or technology for new channels, this type of acquisition.

And there is also a third phase that is further ahead into the future, in which we are going to focus on acquisitions to connect the dots of our B2B ecosystem to our B2C ecosystem.

So answering your question, if you look at the IPO materials, you will see that we have one or two transactions to be made by the end of the year, and that is part of the first phase, and then we are going to take a deep breath, focus on integration. We have a consultancy company hired to help us in the PMI and to give us support in these projects.

Breno (via webcast):

Good afternoon. Congratulations on your presentation. I would like to hear your take on expansion to other countries of Latin America and the penetration of other players in the market.

Kai Schoppen:

Today, we have a footprint in Argentina, Colombia, Chile and Mexico. We are about to open operations in Peru as well. I do not have the exact numbers, but I would say that we have around 95% of the e-commerce market in Latin America in terms of potential countries already achieved.

We have many original customers like Nike that is a customer here, in Argentina and Chile, H&M, which is a customer in Colombia, Chile and Argentina, Richemont is a customer not only in Brazil but also in Mexico. So our sales umbrella is working really well. We are number one in Colombia, we are number one in Argentina, we are number two in Chile as a new entrant, we have been there for months only, and we are head to head as number two with another player in Mexico, but the e-commerce market in Mexico is lagging a bit behind the market in Brazil and Argentina. So we have a small team of around 30 people there only. So not as relevant for us yet.

The focus of new investments is on Brazil, we always say that. The Latin American markets are about five years behind the Brazilian market. We are only selling B2C in the rest of Latin America. We are going to start the other segments, but we are not there yet. We are just there showing our

presence, but the focus on the next one to two years is clearly on Brazil. There is a huge opportunity for us to work. In Brazil.

Daniel Fornazari, Credit Suisse (via webcast):

How do you see the competitive landscape? What are the impacts of that on pricing? And what are your plans to serve the smaller companies, organically or through acquisitions?

Kai Schoppen:

I know that the market wants to hear that we are going to focus on small companies, and that is highly scalable. But although I do not agree with the public opinion on the market, I think sometimes the founder is paid to disagree with some of these issues.

The Brazilian market is 30x better than the market in the U.S. So we can conclude that mathematically, the small customers. Are 30x smaller than in the U.S. So we are going after medium and large customers that correspond to a medium or small sized customer in the U.S. Those who work with really small customers in Brazil would have what they call a tiny client in the U.S.

So we are very comfortable with our position in that way. There are several industries focusing on that. And if I say that I am after medium sized customers, I am talking about those that have an e-commerce of R\$2 million a year. So that is my first message.

The second message is, we can feel the competitive impact on pricing. We do not feel any price pressure, but as I said in the roadshow, and we also mentioned that in 2012, since we always charge from 10% to 20% for B2B and B2C full customers for the whole package of services, platform payments, CRM, at the end of the day, we are a bit more protected, because the average cost can drop from 3% to 2.5%, for example. That can be half of a payment player.

Let us say we have a platform that charges 2%, and the average drops from 2% to 1.5%. They would lose a great part of their EBITDA a significant part of their EBITDA. In our case, the value would be from 15% to 14.5%, the total billing. So since we cover the whole solution, we are a bit more protected in the B2C segment.

About organic, the long tail of our business is in the B2B solutions, with supply to thousands of small retailers. And that is going to happen in an organic way, because our customers will then go after these small retailers, and therefore we gain scale.

Fabio Bortolotti:

I think that was the last question we received via chat. I would like to thank you once again for joining and close our Q&A session. Thank you so much for joining us today once again. And now I would like to turn the floor over to Kai for his final remarks. And thank you, Raffael, for your participation today as well.

Kai Schoppen:

Thank you, everyone. Please feel free to get in touch with us through our Investors Relations department. We have a very transparent, transparent policy in our communication with investors. We believe this is really important.

So thank you so much for joining us today. We started this year committed to our strategy. We showed this again today. Our focus is on expansion and keeping our level of excellency in consumer experience.

If you have any questions, as I said, just get in touch with our Investors Relations team. We will be happy to help you. Have a great day, and take care.