

Y 2019 Earnings Call

Company Participants

- Fernando Biancardi Cirne, Chief Executive Officer
- Higor de Araujo Franco, Business Unit Officer
- Rafael Chamas Alves, Chief Financial and Investor Relations Officer

Other Participants

- Vitor Tomita

Presentation

Operator

Good afternoon. Welcome everyone to Locaweb's Fourth Quarter 2019 Results Conference Call. Today, with us, we have Mr.Fernando Cirne, Chief Executive Officer; Mr.Rafael Chamas, Chief Financial Officer and Investor Relations Officer; and Mr.Higor Franco, BeOnline and SaaS Director.

Today's live webcast and an earnings release may be accessed through Locaweb website at www.ri.locaweb.com.br. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Locaweb remarks, there will be a question-and-answer session. (Operator Instructions). We have simultaneous webcast that may be accessed through the company's website. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Locaweb management and the information currently available to the company. They involve risks and uncertainties because they relate to future events, and therefore depend on circumstances that may or may not occur. Investors should understand that conditions relate to the macro economic scenario, industry and other factors could also cause the results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr.Fernando Cirne. Mr.Cirne, you may begin your conference.

Fernando Biancardi Cirne {BIO 20544253 <GO>}

Thank you very much. Thank you for all of you to be here with us. We start our fourth quarter and 2019 result presentation, when Locaweb had its best results ever.

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Moving to Slide Number 2, please; I use this first slide to show you which challenges SMBs faced in their digitalization processes and how Locaweb can help them. As you can see, we can help in their digital footprint. We can help them improve their communication with clients, expand their communication with sales channels. We can also improve their productivity. We can also start them to sell online, increase their sales online and also with their payment processes. So, we can help them in all the processes and their digitalization processes.

Moving to Slide Number 3, please; here, you can see how Locaweb is structured and that we are structured three big processes. First is BeOnline, the second one is SaaS and the third one is Commerce. In total, we have more than 20 products.

During last year, we strengthened our product portfolio with internal development and acquiring two new companies, Delivery Direto and KingHost; both of them are actually completely integrated with us.

Moving to Slide Number 4; here we have some detailing of our commerce operation. We actually have a state-of-the-art platform with an easy setup for the final -- so, the customer choose our platform and can quickly launch each store. We have agnostic platform that solves all the merchants' operational needs, as you see on the right-side.

When I say -- well, again, we have a proprietary payment solution, which is Yapay. And when I say agnostic platform, Yapay is an example. We are integrated with Mercado Pago, we are integrated with PayPal and many other payment solutions, but we have our own payment solution. So, we don't force the clients to use ours. But we definitely believe that we have the best payment solution.

On the right side, we can show you our ecosystem. We are integrated with 112 other systems, such as 18 marketplaces, 38 ERP systems, 12 logistics solution, 8 payments solution and so on. All these marketplaces help our clients to sell more and also solve all the needs of this clients to sell online. That's the reason that our client grows more than the e-commerce in Brazil; I will show soon. And actually, this e-commerce ecosystem is also a good source for M&A possibilities.

And as I told you, with these large ecosystems, we were able to grow our GMV 57% last year and e-commerce in Brazil grew 12% last year according to EBIT. So, our GMV now represents more than 6% of the Brazilian e-commerce GMV. So, we are doing pretty well in terms of GMV growth.

Moving to Slide Number 5; we have here five examples of improvement in our commerce platform that helps our platform to be the best for SMBs. The first one is marketplace integration. We -- during last year, we had six more integration like the Dafiti, Kanui, Cissa Magazine, Olist, Carrefour and Webcontinental. We also increased the integration with logistics operators such as Jadlog and Gollog.

Yapay is also -- have partnerships with other e-commerce platforms. Yapay is not a brand that works only with Tray. It works with Bis2Bis, BizCommerce, FastCommerce, MageShop,

Yampi, Irroba, broadening the ecosystem. Also, it works with opensource platforms such as Magento and WordPress. So, it's a brand. It's a product not built to work with Tray only. It works with many other platforms.

And we also launched a new customer center, very user friendly. And now we have 448 certified partners that helps the clients to launch their platform, we have a lot of these. So, when they choose Tray, those partners help the clients to launch quickly their platform, okay?

Now, the idea is to bring to our results call, our BeOnline and SaaS General Manager and also our Commerce General Manager. And today, we have with us is Higor Franco, who is our BeOnline and SaaS General Manager. Please, Higor Franco.

Higor de Araujo Franco {BIO 20542871 <GO>}

Thank you, Fernando. Good afternoon, all.

I will start with some details about what we have done in the fourth quarter of 2019, and also for the whole year in terms of BeOnline and SaaS products. So, we, as Fernando mentioned, we have been accelerating and providing the digitalization for SMBs in Brazil.

So, we have seen a lot of demand for this in the last years. And because of that, we have been accelerating the development and of new features and also new products.

So, in the fourth quarter, we launched two new products, which are just basically a new Voice Over IP platform, and also a new WordPress Hosting platform. Those products, especially the Voice Over IP product, are related to our SaaS, Software as a Service portfolio. So, we have this position as the best BeOnline in the market. So, we're still launching new products on that area as well.

Moving forward and talking about SaaS portfolio specifically, we also improved our Site Builder product with new features that also complement the SaaS portfolio. And we have been moving to second generation SaaS, which is basically new products that are totally different from what we have been doing today in terms of portfolio.

So, the second generation are products that are not so related to what we have been done in the past, but they are trying to look forward in new areas, in new verticals that Locaweb are not present today. An example, with Delivery Direto, which we acquired in last year, in mid of 2019, and Delivery Direto is a SaaS platform that enable restaurants to have their own delivery platform. It's a very strong SaaS platform in Brazil and the acquisition is aiming to make more products in mobile area for our client base that is positioning different verticals such as commerce, such as service, and et cetera. So, the Delivery Direto platform will enable us to offer a new mobile platform to those verticals that are not digitalized very well today in Brazil.

We also -- talking about acquisitions, we also aim for -- KingHost has a huge opportunity in terms of SaaS. Today, KingHost is very well positioned in terms of BeOnline products. They operate very well with very low churn and high NPS, as Locaweb do today. And in terms of SaaS, we have seen there is a lot of opportunity for KingHost to be present on this area, on this market. So, we have been doing a lot of effort to make KingHost more SaaS company than they are today.

Moving to next slide, please, Slide 7; so, in this slide, we will show the main deliver -- the main launches that we've done in the last year in 2019. So, for Site Builder, for example, we launched new features such as new database image. We also integrated Site Builder with Facebook. For this integration, we're expecting to see customers moving content between the two platforms, Site Builder and also Facebook. We also integrated Site Builder with Google Analytics to give the customers the opportunity to measure their site and their audience.

We also launched new features on Site Builder's store. We have small store on Site Builder for small entrepreneurs that are aiming to test their e-commerce, to validate their e-commerce idea. So, on that product specifically, we launched new features such as inventory management, catalog management, price management, calculation of freight, and also new image database for products on that store.

We also launched new features on digital Workplace, aiming productivity. With that, we launched a new IP communication product that will enable our customers to -- using softphone or mobile or desktops and et cetera. And we're also delivering voice mail, call history, real-time expenses, dashboards, call center support with productivity, reports, and et cetera.

We also launched a new Digital Presence product, which is basically WordPress Hosting product with many features related to security, to build templates and plug-ins. And our expectation is to give the customers the ability to launch and quickly create their own websites.

In the last, we launched a new redesign in terms of -- we redesigned our VPS line. VPS is our virtual private server cloud for small developers. We now have available for them Windows operation systems and also high-performance servers using SSD disks and et cetera. We also launched a new Database as a Service product for those developers that want to connect their applications with high scalability and performance database.

Okay. Now, I'm shifting to Fernando again.

Fernando Biancardi Cirne {BIO 20544253 <GO>}

Yes. Thank you very much, Higor.

Now, moving to Slide Number 8; people is very important to us. We had 1,500 employees at Locaweb; more than 500 of them working straight with programs. And we need

constantly to create programs to hire the best people, to develop them, to keep them working here.

And I would like to talk about three of them. First of that is, I want to be a developer. I want to be a developer; we take people, we take technical people leaving university and we create a program that we develop them internally. So, from the left the university, until 3-4 years after university, we can keep those people developing, we can develop their career internally.

We have the succession pipeline, and we have the nine box tool to -- this work for directors, managers, coordinators, and technical people as well. And also, the diversity program that we created last year and that is bringing us a lot of good results. And also, our fourth one, which is the Trainee program, we are moving to the fourth year of Trainee program, okay?

Now, I pass to Rafael Chamas, who is our CFO. And he will talk about our good results.

Rafael Chamas Alves {BIO 21792610 <GO>}

So, thank you, Fernando. Good afternoon, everyone.

So, I'm starting Slide Number 10; as Fernando said, 2019 results were the best in the company's history. It has grounded such an important moment of Locaweb that was our IPO. That way, we started 2020, capitalizing and prepared to advancing our strategy, our strategy of growth and consolidation as the leading company in offering solutions for the digitalization here in Brazil, especially for SMBs, that is our main focus.

So, with that, I would like to talk about the highlights of the fourth quarter and the full year. On the left-side, I bring the numbers that shows the growth of the company and the right-side, the profitability and cash generation.

So, in starting, our consolidated revenue grew 22.5%. We ended 2019 with net revenue of BRL 385.7 million. Our fourth quarter growth was 25.8%. Our e-commerce platform, our segment, kept its high growth pace. So, we grew 46.5% year-over-year. And also important to highlight, our GMV growth that grew 57% year-over-year, a pace that was strong growth than the market here in Brazil (inaudible) that is an institute that does e-commerce market summation, is expecting a growth for 2019 of 12%. So, that shows how strong is our platform in accelerating our clients' growth here.

Going to the right-side. As I said, here, I bring the numbers of profitability and cash generation. Well, we always like to highlight that Locaweb is a company of high growth, but with profitability and cash generation, and the numbers will show that. We ended 2019 with an EBITDA of BRL 110.9 million, which is a growth of 40% year-over-year. If we get the pro-forma data for KingHost, that is a company that we acquired back in May '19, our consolidated adjusted EBITDA would have been BRL 114.7 million.

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Our net income grew 48.4% and reached BRL 28 million. And our cash generation that we measure by the adjusted EBITDA minus CapEx, grew 69% and reached BRL 63 million. And that confirms our succeeded -- it's been our strategy of growing high margins in asset-light segments that are the Commerce and the SaaS operations.

So, moving to Slide Number 11; here I present the consolidated net revenue of the company. As I said before, we ended 2019 with BRL 385.7 million of revenues, which is a growth of 22.5%. But important to highlight that Locaweb has been growing since its beginning. We've grown -- we always showed growth trajectory even the most difficult moments here in Brazil. So, it's a growth company and we've been accelerating that. And for the fourth quarter, we ended the year -- we ended the quarter with revenues of BRL 105.2 million, which is a growth of 25.8%, so higher than the year itself.

Please move into the next slide that is Number 12. Here I present the net revenue growth by segment and the drivers for that to happen. So, we're starting on the upper side. Here we have the Commerce operation. We closed 2019 with BRL 80.1 million of net revenues. That's a growth of 46.5%. And if you look at the historical trend, we are accelerating. So, 2016, our revenues were BRL 29 million. And we closed the fourth quarter with growth of 45%, revenues of BRL 22.3 million.

Two drivers here of our operations that indicates and explain the growth that we have in the segment. We closed 2019 with GMV of BRL 3.8 million, an impressive number, and that grew 57% year-over-year. In our payment operation has shown a TPV of around BRL790 million, which is a growth of almost 80% year-over-year.

On the lower side, we can show that BeOnline/SaaS has also shown contribution for the growth of the company. We closed the year with BRL 305.6 million, a growth of 17%. Our fourth quarter grew 21.4% and closing fourth quarter with BRL82.9 million, and we ended the year with 365,000 clients that is a growth of 25% compared to 2018.

Moving to Slide Number 13; I'm going to start talking about profitability and cash generation. In this first slide, that is Number 13, I'll talk about EBITDA. And very important to mention, Locaweb has been expanding its margins year-over-year. So, as I said, we have the ability to grow expansion in profitability for the company. Our adjusted EBITDA reached, as I said, BRL 110.9 million. If we get the full year for KingHost, our result is BRL 114.7 million.

We've been showing margin expansion in our consolidated numbers. You can see that in the quarter and in the year. So, why that happens? What is the logic to have growth with increasing profitability? There are two explanations here. The first is our mix composition. As I said before, we are growing more in segments that shows higher margins that are Commerce and SaaS. So, the mix of these two accelerated base operations are increasing our consolidated margin. But not only that, we've been able to expand the margins in each of those segments as well. So, we've been able to leverage our operation with the characteristics for SMB solutions.

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So, starting with Commerce; Commerce, that represents already 30.6% of our EBITDA, compared to 27.5%. And so, that's the mix segment here. We grew 56.6% year-over-year in our EBITDA, which is BRL 34 million for 2019. And the BeOnline/SaaS, also grew 34% and closed the year with EBITDA of BRL 76.9 million. So, both segments have grown, and the mix composition has brought our consolidated numbers to higher margin. But not only that, it's important to highlight how we've been able to expand the margins in the segment. So, Commerce grew from EBITDA margin of 39.7% to 42.4% and the BeOnline and SaaS also expanded its margin from 22% to 25.2%. So, those things all together led our consolidated numbers to expand the 40.3% year-over-year.

Moving to Slide 14 now; so, here I show the adjusted net income for the company that has grown 48.4% and closes the year with BRL 28.2 million. The net income has benefit from a few things. So, as I said, the operational leverage that we have in the segment, our growth in segments that not only has higher margins, but also demand less CapEx. So, our depreciation hasn't grown because of that. We are talking about Commerce and SaaS, they do not demand the extra CapEx to growth. They are asset-light operations. And also, income tax. So, we have another drop in our effective tax rate for the 2019 that was 25.6%. So, all those things together made our net income to grow 48.4%.

Next Slide, Number 15. Here I show the cash generation of the company. As I said, Locaweb is on operation that generate cashes. And we are also capitalized. It's important to say, because of the proceeds from the IPO.

On the left side, here I show the cash flow. So, the first highlight that I do is the net cash of the operation activities. That grew 41.4% year-over-year and closed with BRL 82.8 million. Right below that we have the CapEx for permanent assets that has grown 17%. But BRL 5 million from the CapEx that was made on 2019 was added to our permanent asset in 2018. So, if I do not get these BRL 5 million in accounting, you would have seen a drop of 15% in our CapEx. And that's important to say because that shows the contribution of growth in the asset-light segments.

And now, going to the free cash flow after CapEx; of course, it has almost doubled. So, we closed 2019 with BRL 35.2 million of free cash flow. Important also to say that because of the IFRS 16, the lease is not in the operational activities anymore. It's there in the financial activities. You can see that in the BRL 10 million - BRL 10.1 million. So, if you get that number in the operation activity to make on a comparable basis, even though we have -- we would have seen an expansion of cash generation of 47.2%. So, the company is generating more cash.

Then on the right side of this slide, this chart summarizes the success of our growth strategy in high-margin and asset-light segments. Here I show the cash generation that we measure by EBITDA -- adjusted EBITDA minus CapEx. And we closed 2019 with an expansion of 69% and closed the year with BRL 63.2 million of cash generation.

So, with all that said, I pass back the speech to Fernando Cirne here.

Fernando Biancardi Cirne {BIO 20544253 <GO>}

Bloomberg Transcript

Thank you very much Rafael.

Now, I will talk a little bit about coronavirus, how -- what have we done and how it might impact us. And it's important -- well, moving to Slide Number 17, and how we have act? It's important to say that since the beginning of the coronavirus crisis, our main focus has been with the safety of our employees and also with the continuity of our operation. And we have been very successful in those two items.

With our previous experience with remote work, mainly in the engineering and developing new products, and also with our contingency plan in the support operation, we have been able to reach 99% of home office and the -- in the entire company with zero impact, which is very good. Also, we have been able to -- we are continuing to develop new products with the same speed and also we have the same support standards that we used to have. So, zero impact on our operation. We have the same standard of development. So, we are very happy with what we have done with our operation and with our employees.

Moving to Slide Number 18; here we have -- it's important to remember how resilient our businesses is. We have 97% of our revenue recurring with automatic renewal. It's very important. We have very low revenue concentration. Our largest client is responsible for less than 1% of our revenue. We are very capitalized, as Rafael said before, and we are very cash generating company. More than 80% of our sales are from digital channels. So, they continue to work normally, and we are continuing to bring new clients to our operation. Our service will be needed in a scenario of increasing digitalization. And we definitely believe this scenario will happen when the corona crisis finishes, okay?

Moving to Slide Number 19; we know it is too early to know all the impacts in our operation of the corona crisis. But based on the last 10-days, what we have identified are, for products for SMBs, some products have suffered some drop in sales, but some other products have suffered an increase in sales.

I can give you two examples. The first one is Tray stores. We had good increase in sales. And another one, Delivery Direto, the APP for restaurants, had a dramatic increase in the number of new restaurants that applied for the application, okay? Also, exchange rate can help products, while competitors are priced in dollars. For example, Tray again. One of our competitors, which is Shopify, is priced in U.S. dollars.

Entrance cloud products such as Cloud VPS also increased its sales. And another product that we believe will face a very good increase in terms of sales (inaudible) our main competitors, all of them are based -- their price are based in dollar. So, we believe that after the crisis, we will be able to sell a lot of our.

For larger products, sales and churn are being held back by the lockdown. So, we believe when the corona crisis finishes, we will face increase in sales and churn as well. So, it's much like a -- I think that held back is a good word, so like a frozen of sales and churn.

The acceleration of the economy may reduce the growth of GMV. But again, our GMV last year grew 57%, much more than the GMV of e-commerce in Brazil, which was 12%. So

even if we face a deceleration, okay, it might be 45%, 40%. It's early to say, but we might see it decelerate, but we will still grow GMV this year. However, with this acceleration, offline businesses, you search for online solution, and these will be definitely an opportunity for Locaweb after -- well, when the corona crisis finishes, correct?

Moving to Slide Number 21; well, we believe that we are very well positioned for 2020. We are very well positioned in this relevant business that is e-commerce. This business is growing a lot and we have good product, very good and consistent and so on.

We have the best portfolio for SMBs digitalization process in Brazil. We are a very well capitalized company with the resource obtained from IPO and with strong and consistent cash generation. We have a clear strategy, robust M&A pipeline. We have a clear ability to launch products that complement the ecosystem and increase the possibility of cross-sell and up-sell. We have programs to develop, retain and attract the best people in the market. We can use our low CAC to accelerate customer acquisition, and we can contribute to the market stabilization post-COVID. That's it. So, we believe that even with this crisis, we can have a definitely great year in 2020.

Thank you very much to spend these 40 minutes with us. We now will go to Q&A, and again thank you very much.

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Vitor Tomita, Goldman Sachs.

Q - Vitor Tomita {BIO 19238819 <GO>}

Hi, good afternoon, all and thanks for taking our questions. We have actually two questions here. One question, if you could give us some more color on how much of the GMV increase over the last year, over the last two quarters came from Yapay customers outside Tray's base in other platform?

And the second question is whether you could give us a brief update on how the competitive scenario has evolved, especially in commerce and if there has been any relevant recent developments in competition? Thank you.

A - Fernando Biancardi Cirne {BIO 20544253 <GO>}

The first question, we cannot open this data because of the competition environment. What I can tell you is that our payment solution, Yapay, is outside platforms, such as Magento, WordPress is growing three-digits, is all I can tell you. I cannot give you more detail about these data.

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Regarding the competitive landscape, what I can tell you is that and one of our competitor, the Xtech closed its doors in January. So, that's an advantage to us, and another competitor which is Shopify charges in dollar and as the exchange rate is becoming higher and our platform is becoming more competitive against foreigner competitors such as Shopify. And also Shopify doesn't have an ecosystem -- such a strong ecosystem as we have.

So integration with marketplace in Brazil, and installments and integration with ERPs and so on. So we definitely believe that we have the best solution in Brazil, and the best ecosystem compared to our competitors.

Q - Vitor Tomita {BIO 19238819 <GO>}

Perfect. Very clear. Thank you.

Operator

Our next question comes from Cesar Medina, Morgan Stanley. Mr.Cesar, your line is open. (Operator Instructions)

Thank you. I'll turn over to Mr.Fernando Cirne for final consideration. Mr.Cirne, you may give your final considerations now.

A - Fernando Biancardi Cirne {BIO 20544253 <GO>}

Thank you very much for all the attendees. I would like to say thank you for all the C level, all the Directors, and for the attendees. And hope to see you again in three months with the results of the first quarter. Thank you very much.

Operator

Thank you. This concludes today's Locaweb's fourth quarter 2019 results conference call. You may disconnect your line at this time. Have a good afternoon.

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