Q1 2022 Earnings Call

Company Participants

- Aline Goldsztejn, Corporate Legal Officer
- Fernando Biancardi Cirne, Chief Executive Officer
- Higor de Araujo Franco, Business Unit Officer
- Rafael Chamas Alves, Chief Financial and Investor Relations Officer
- Unidentified Speaker
- Willians Marques, Segment Director for Commerce and Retail

Other Participants

- Andre Salles
- Bernardo Guttmann
- Cristian Faria
- Marcelo Santos
- Victor Hugo
- Vitor Tomita

Presentation

Unidentified Speaker

(Call Starts Abruptly) SaaS; Willians Marques, Segment Director for Commerce and Retail; and Alessandro Gil, Segment Director for Commerce SaaS Enterprise. This call is being simultaneously broadcast online via webcast and can be accessed at www.ri.locaweb.com.br by clicking on the link webcast quarter one '22. The slide presentation will also be available for download on the webcast platform. This conference call will offer simultaneous translation into English for the convenience of our international investors. Click on the interpretation button on the bottom right to choose your preferred language.

Before proceeding, let me mention that any forward-looking statements made during this conference call relative to the business prospects of Locaweb as well as projections and operations -- operational and financial targets of the company are based on beliefs and assumptions of the company's management as well as information currently available.

These forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they refer to future events and therefore, circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operational factors may affect the future performance of Locaweb and lead to results that differ materially from those expressed in such forward-looking statements. (Operator Instructions)

Now, I'd like to hand the conference over to Mr.Fernando Cirne to start his presentation. Mr.Cirne, you may proceed.

Fernando Biancardi Cirne {BIO 22072821 <GO>}

Good afternoon, everyone. It's a pleasure to be here today presenting the results of quarter one 2022. Before starting, I would just like to thank all of those who contributed to these results, our employees, our shareholders, and the entire market.

The first chart here highlights the alignment of our results, particularly our revenue and margin with the budget plan established for this year. We are very much in line in respect to these two first points. The first highlight of the quarter is the recurring customer base for e-commerce. So Tray, Bagy, Dooca, and Bling showed very strong growth this quarter, reaching 135,000 subscriptions. Our subscriber base has been showing strong linear growth since our IPO, and this is due to the next point here, which is the strong addition of new customers that has been taking place.

And since the reopening, which we consider that took place in the second half of last year, this is what we have been seeing. The second important point here is our consolidated net revenue that showed 54.6% increase year-over-year. Another important point is the growth of our organic net revenue for commerce, an increase of 44%, a little higher than the 42% of last quarter. And so, it's only something that makes us stand out in the commerce segment. The commerce segment already accounts for 58% of the net revenues of the group, and this will continue to grow in the future.

And we have two important points here regarding our profitability. Our organic margins have been stable for three consecutive quarters. This is very relevant and once again, here, this is very much in line to the budget established for this year. And the EBIDTA margin of our acquired companies also shows the slight evolution.

And finally one last piece of data. Our GMV. The GMV of the entire commerce operation of the group reached in quarter one BRL11 billion, which is very significant considering the commerce environment in Brazil right now. This chart shows the evolution of our paying subscriber base.

Since our IPO, we went from 50,000 subscribers, now we are at nearly 135,000, a 43% increase in the last this year. And we -- what we see here is very consistent growth. We don't have any outlined values here. And in the last six months, we had an addition of another 11,000 subscribers. So, what we see here is the consistency of the new subscriber additions. And one of the reasons for that stable growth is the maintenance of the speed of addition of new subscribers.

It's very important, because we had this very strong growth with the COVID pandemic from the first quarter of 2020 to the third quarter of 2020. And then, with the reopening of the economy, which we considered that took place after the second half of '21, we haven't really lost any speed. What we see here is a consistent pace of base of addition of new subscribers and no losses whatsoever. So, the company continues to work at very accelerated speeds. We had the acceleration that came with the COVID pandemic, but the company continues to work towards the addition of new stores of new customers. So, this is what explains the strong growth rates of our customer base.

Another important aspect has to do with how the market sees companies that show strong growth rates. That's what we call the Rule of 40. The Rule of 40 is the sum of the growth of the net revenue year-over-year added to the adjusted EBITDA margin. So first, we have a Rule of 40 for our consolidated organic operation, which is BeOnline & SaaS plus Commerce. So, we had a 21% increase in net revenue.

The adjusted EBITDA was 24.5%, reaching the number of 45.6%, which is very expressive. However, when we look at the Rule of 40 for the organic operation of the commerce segment, this number is even more expressive. The growth of our net revenue year-over-year was 43.7%, with an EBIDTA margin of 34.9%, and the Rule of 40 then reaches nearly 80%, 78.7% to be more precise, which is also a very expressive indicator.

The GMV does not reflect our net revenue, but it is still a very interesting way to understand how our operations are doing. On the left, we have the GMV for our commerce platforms, for our four commerce platforms. The GMV increased by 17%, but it's important to break this down into two types of GMV; the GMV that refers to the integration with the marketplace, which grew under 17%, and the GMV of the transactions performed on our platform itself, which increased well over 17%. And this was expected. This was expected to our strategy.

Our strategy allows customers to enter our platform and increase their transactions through the marketplace. And then, within our ecosystem, we offer all these different tools that will help customers learn how to do their own marketing. For example, All In Social Miner with email marketing and customer database, integration with WhatsApp, Instagram, Facebook.

We also have our e-commerce school to educate our customers on how to work with all these tools. We have Google, so the customer will start with the marketplace, and then they'll start mastering their own marketing within our ecosystem. So it's natural that they will grow further within the platform itself through marketing and sales. And that's why, the GMV -- the in-platform GMV is growing well over 17%, and this is what was expected and this is part of our strategy. And that explains the green side of this chart, the left side of the chart.

So, I'm going to -- now I'm going to briefly go over what's happening here on the right side of the chart. This quarter, we will start to open the rest of the operations that also generate GMV. So, our marketplace integrators and also ERP integration with the marketplace. And in this case, of course, the operations are only integrated with the marketplace. And you see that it is growing well above the market average. And this also shows the efficiency and the proficiency of these platforms.

Now, when you look at the general data here, of course, so it's a 44% increase, and when we look at the entire market, this reaches BRL11 billion. And it's worth noting that BRL11 billion in only one quarter, this is very significant within the context of Brazilian e-commerce. This is very strong. This is huge. So, this means that we will reach nearly BRL45 billion that the Locaweb Group is generating for Brazilian e-commerce and this is very strong, this is huge. So, it's worth highlighting the importance of our ecosystem for the e-commerce market in Brazil.

Now, let's talk a little bit about our acquired companies. Our acquisitions have been running really well. According to the business plan established at the time of the acquisition, maintenance of their growth rates, this is what we expect from these companies and then over time, we start expecting operational gain, to achieve profitability levels or organic profitability within two years to four years after the acquisition. If we go into more details, let me talk about the three major operations here Bling, Melhor Envio, and Squid.

The two first operations, Bling and Melhor Envio combined account for 50% of the net revenue from our acquisitions, and these two companies grew their net revenue quarter-over-quarter more than 70%. This is great. And for Squid, the increase in the net revenue was more than 40%. So this is very good news from our acquired companies.

We have two important indicators here regarding our acquired companies. In the case of Bling, we like to talk about the invoice GMV, the fiscal note GMV. An increase of 59% from BRL13.5 billion to BRL21.5 billion, very strong data. And in the case of Melhor Envio, we talk about the number of tax issued. They went from BRL3.2 million BRL4.8 million, a 47% increase, which means which means these two companies are soaring and their indicators are well above the average of the e-commerce market and this has also helped us achieve these very good results of the quarter.

Payment solutions, another important part of our ecosystem. We had a 77% increase, reaching BRL1 billion this quarter. And what's important here is to see how we are contributing to this with our internal work, which shows our capacity to integrate the acquired companies. Last quarter, we were at 18% share of the TPV generated from synergies, and now we reached nearly 24%. This is one of the integration indicators that we have and it surely reflects how much we are evolving internally as a group.

And finally, the evolution of our brands. This is also another critical concern for the group. And this certainly makes sense, because we are acquiring many companies, so we are working with different brands. The first part is our mother brand. The Locaweb brand is widely used for the BeOnline and SaaS products. It is the first brand of the group, which has always been used for hosting services, email marketing, and domains. But with the growth of the e-commerce segment, we had new brands joining our group. It's the case of Tray, Bling, Vindi, and so on so forth, Melhor Envio.

So what happened here, is that the Group was in need of a new mother brand, a new institutional brand that could consolidate all these other brands. So, we surveyed the market, we listened to the customers, we listened to the brands themselves. This survey lasted for four months and the conclusion was that the Locaweb name is still very strong. It conveys a message of trust, of quality, robustness, so that's where the new mother brand came from and the name of the new mother brand is Locaweb Company. This is what my shirt says. We're very happy with our new brand. This is not contrary to the rest of our brands, this just shows the soundness and the union of the brands in our group.

Still about our brands, an important work is starting to be performed now regarding consolidations. Yapay and Vindi our two payment systems are now called Vindi. All In and Social Miner will now be called All In. This was a natural process. This will also happen with other brands over time. This is a dynamic structure variation of our brand architecture. This is something that we will keep doing so you can expect new consolidations of our brand names in the coming months.

Thank you very much for taking the time to be here. I stop here and now I hand it over to Willians. Willians is in the City of Marilia where we have our Tray operations, and he will talk about the evolution of our operations in quarter one '22. Thank you so much.

Willians Marques

Thank you, Fernando. So, greetings from the City of Marilia. Good afternoon, everyone. Thank you all for attending our conference call. I'd like to thank our investors, our employees, and mostly our customers who continue to trust our operations and our services.

So let me start talk a little bit about our platform. On slide number 14, here we have this view of our ecosystem. This is something that we have always been showing in our conference calls, our mandala and the three major areas that are unified. We have unified solution, partners and education and this is always -- keeping in mind that the e-commerce environment is becoming more and more complex and companies need our help to be able to have an online presence.

So, this is an approach that we have been developing for a while now, and this has been very successful. And in addition to delivering this platform for e-commerce, for small and medium companies, small medium businesses, we also deliver and unified solution and unified expansion, because customers will look at one single dashboard and be able to access all these solutions in a very friendly manner. So, support, logistics, marketing and sales, omni-channel, which means that integration with brick-and-mortar stores, online payments, financial services and ERP, so that our customers can manage their businesses.

And it's very important to reinforce that our platform has always been very open and agnostic in relation to other partners. On the right here, we have a list of partners that is becoming longer and longer, we have been -- seeing a lot of evolution, we are launching new APIs, new integrations, boosting the sales of our integration with other applications. Today, we have more than 600 integrations and every quarter, we will be announcing new partners and new tools to which we are connecting our platform.

And today, we are launching our services store, a great innovation that will allow our customers to contract. In addition to contracting a theme for their store, they can also contract additional services such as the creation of a logo or the personalization of their layout, creation of banners. And this demand is totally linked with advertisement agencies that are already approved and amalgamated[ph] by Tray.

So, what we're offering our customers is the easiness to contract specialists -- specialized services and we're also generating demand to our partners. So, this promotes circular economy and has advantages to both sides. We are also offering advantages to our partners so that our partners can keep closing their deals around and within our ecosystem and generating revenue.

And the third pillar here which supports all the others is education. So, this is -- we have this vision that we have to educate our customers. It's not enough just to provide them with services, we also have to educate them and teach them how to develop their presence online. So, we're very much focused on training and capacity building. We have the e-commerce school, which is a strong pillar for us, and we are now advancing in online communities. This means we're getting closer and closer to our customers through our onboarding process. So, we onboard our new customers in groups using some market platforms. And this allows customers to share that initial moment with us and our staff is there to support them. We have weekly onboarding live sessions about specific topics, and we are focusing more and more on the onboarding of new customers.

And still on slide number 14, on the right side of the slide, we have all the new -- all the novelties that we launched in the past few months, particularly focusing on marketing and sales, because this is what we want. We want our customers to sell more, either through the marketplaces or their own channels, their virtual brand. So, we are advancing integration with new marketplaces, we're developing integration which should be, we have been maintaining a very high level of quality, we're a platinum brand in (inaudible) delivery . We are also top brand in Magalu, Amazon and all the relevant market places in Brazil.

We show our -- they attest to our very high level of quality, and we are also launching items that will help our customers sell better in their own channels. First integration with Facebook. So the use of new APIs on Facebook. It is the -- Tray is the first company in Latin America to connect with these APIs to promote the or campaign management on social media. So, catalog management, conversion management in a very simplified way.

We also did a very innovative integration. So we were the first in Latin America to integrate with WhatsApp using new APIs as a business manager, allowing our customers to fire campaigns, conversion campaigns, and shopping cart recovery campaigns via WhatsApp. Also, integration with Instagram with TikTok ads, so that our customers can manage their paid campaigns on TikTok directly from their virtual channel.

And Dropshipping. Dropshipping is an excellent initiative that we rolled out that allows our customers that do not have products or customers that do have products, but they want to add other products to their portfolio, this allows them to receive products from external suppliers so they can buy both their products and third-party products on their online platform without having to worry about the delivery. So Dropshipping is a productless sale that opens an entire universe so that new customers can operate their online store without necessarily having their own inventory.

So then, we continue with conversational commerce. A partnership with Octadesk for conversions during conversations. We also have efforts with Squid to bring digital influencers for campaigns for small businesses. And also, our email marketing tool that leverages interficial -- artificial intelligence and behavioral mapping for -- to increase conversion.

So in sum, all our efforts are focused on allowing our customers to be successful in their operations, offering them all the tools they need and we are more and more integrating with the major platforms in the market so that we can help our customers sell more without the need to look for external partners.

Next Slide. This is an example that we already heard about other solutions. So this is a quick example in credit. So we have a financial solution with Credisfera, a company that was acquired by Locaweb. And you see in this representation this is a real screenshot of our products. So, this is within the Tray environment and here we have a credit offer with the pre-approved interest rates and the customer can access all this on the same dashboard. So, they have pre-approved credit, that can be granted within the Locaweb environment. So, this is an example of how we are going about the integration of the acquired companies. And this is what's making our ecosystem more and more attractive and complete.

On Slide 16, here we have yet another example. This is specifically for our social commerce app, which is Bagy. And on the right side, we see the activation of the Melhor Envio. So, these were two M&As, two companies that we acquired. And we are working on this cross integration where Bagy offers a very simple solution to a customer that is starting on the -- in the online world and already wants to use the logistic technology of Melhor Envio. So, this is a 360-degree effort to integrate the solutions in our ecosystem and the companies we acquired.

Now, moving on to Slide 17. This was a very important launch for us, we were very happy to be the partner chosen by Group Itau[ph] for this launch. And the Dooca platform is behind this new campaign, providing all the technology to their customers. So, here, we are providing them with the flexibility of the Dooca platform, allowing customers to be automatically provisioned in this environment without the need for any settings or configurations to use the financial solutions of the network.

Dooca is a beginner platform, it is a platform that allows customers to start selling very quickly and it was chosen by Itau for the trial I'll and also to be our trial platform, and it has the ability to be a co-branded platform. So it allows us to launch solutions for specific customer base of a specific partner. And fore hedge for Itau the advantage here is to keep very high levels of loyalty among their customers using the Dooca platform as the payment solution for the their network for the hedge. So, the hedge customer will you to use the hedge solution, but now within the Dooca platform. And our expectation is that this partnership will bring real booking increments for Dooca, and what we're seeing is that this is a very valuable partnership for the Grade A customer.

On the next slide, this is another new announcement that we made. Bling is one of the highlights and BlingUp is the novelty. BlingUp is an application for business management and it's an application specifically for small entrepreneurs, individual entrepreneurs or business owners so that they can start better organizing their everyday work. They can issue invoices, they can perform cash control, and here we also offer integrated digital purchase. So one of the greatest highlights here is that in addition to controlling your sales and your business performance, customers can also use embedded financial services such as issuance of bank slips or payment -- receipt of payment.

So this is where we expect to really monetize from the use of this product. And this is what allows small entrepreneurs, small business owners to start their business already having a presence online. And in the future, they can become our customers for other solutions as well. This really expands our potential customer acquisition, because we have a solution that is offered free and can be used by any business owner or any self-employed professional that has a small business.

This is already at the beta stage and it's a great novelty that we wanted to share with you and that we're bringing to the huge population of entrepreneurs that we have in Brazil.

Now, I hand it over to Rafael. Thank you for your time. And I will be available in the end for questions.

Rafael Chamas Alves {BIO 21792610 <GO>}

Thank you Williams. Good afternoon, everyone. I'd like to start my presentation with my traditional slide, with the main highlights for the period. First one is the net revenue. We closed the quarter at BRL248 million, a 55% increase year-over-year. Of course, this was boosted by e-commerce that had 121% increase in this quarter. So this is strong organic growth, but we're also growing inorganically. Our inorganic operation comprising Tray, payment operations, Yapay. And the operation of Tray Corporate, Tray Enterprise, which together had an increase of 44% year-over-year. So, we closed the quarter of with 135,000 subscribers or 43% increase year-over-year.

Our TPV reached BRL1 billion. So, BRL1 billion in TPV, a 77% increase year-over-year. And once again, here, it's important to highlight that this is the main indicator for the synergies we have the group. Nearly one-fourth of the TPV that we have today comes from opportunities that we captured from the acquired companies. So, this is a great profit-making a factor for us.

GMV. GMV is this new concept that we're using to show the relevance of the entire ecosystem. For Brazilian e-commerce, it reached BRL11 billion in Q1, very strong growth year-over-year. The adjusted net income was BRL30 million, an 11% margin and I'm going to give you more details later. And our cash position is also very comfortable for us right now, BRL1.6 billion, this means we have good liquidity.

So, now let's go into more details. First, our net revenue. Here we have the consolidated net revenue and then for the segment commerce and BeOnline & SaaS. As I said, our consolidated revenue increased by 54.6% from BRL160.9 to BRL248.8 million. Then, commerce net revenue is already at BRL144 million, as 120.6% increase year-over-year. And for BeOnline & SaaS, a 9.4% increase reaching BRL104.6 million in the period.

Now, let's go into details about the commerce net revenue. We have two monetization vectors here. First, ours subscription revenue, which is directly related with the number of subscribers we have on our platform and the second is the monetization of our ecosystem GMV. As you can see, both points are growing at a very fast pace of the BRL144 million, we have BRL81 million within our ecosystem, a 102% increase. And our subscription revenue, BRL63 million and 150% increase. So this is a very healthy growth rate for both sectors that allow us for the monetization of our e-commerce operation.

Now, let's go into the topic of profitability. This is an important topic and the -- one highlight is the organic growth of commerce starting in the third quarter of '21 and starting when we start to incorporate our acquisition. So, we have three separate lines here. In blue, we have the organic commerce operation, in red, BeOnline & SaaS, and in yellow are acquisitions. When I say organic commerce, as you can see from quarter two to quarter three, we had a drop of 41%, 42% to 35%. This was due to the investments that we made in R&D to continue to build this ecosystem that Williams talked about, and also saw that we could continue to capture and maintain the growth of our customer base in the post-pandemic period. This was very important and this is something we have always been telling the market.

Now, we have stable margin projected for this year. And for three quarter, our margin is close to 35%. So this means we have reached stability of this margin and maintaining the addition of new stores, which leads us to that Rule of 40 of nearly 80% that Fernando talked about. For BeOnline & SaaS, our margins have been stable for a while now and they should continue at the same levels for the rest of the year as we saw in our earnings.

And it's important to talk about our acquisitions. Our acquisitions did present some negative margins, but this was expected. This is actually how we create the business plan with these companies. When we acquire a company, we will prepare a business plan that will prioritize the consolidation of that company in our ecosystem. This is the main target that we have in the first few years after the acquisition. Of course, that after they grow and gain scale and we capture the synergies, we start to see the recovery of the margins, but in the first few years, it is expected. And this is what we incorporate in our budgets and plans that these companies will work with negative margins, while we prioritize product and growth.

In quarter four, 2021, we had our latest acquisition, which was Squid, that's why, we see a margin of minus 11.9%. And in Q1, we had a slight improvement and this is what we expect for the years, slight improvements in these numbers. But don't forget that these companies will start to reach stable margins close to our organic levels after three or four years. This is what is expected in our business plans.

So, we closed quarter one at 32.9%. EBITDA, it is a slight decrease year-over-year, but this is due to the acquisitions that showed a negative margin in quarter in the second half of 2021. And focus on the commerce sector and we closed the quarter one with 14.5% million in EBIDTA. The adjusted net income, we grew from BRL9 million last year to BRL29.7 million, so a 229.3% increase year-over-year. The adjusted net income went from BRL8.4 million to BRL4.5 million. And the accounting income to the adjusted income has to do with some impacts coming from our M&A strategy.

So, these are facts that have been priced in the investments that we make in these companies. This is -- this has to do with the amortizations of intangible assets and also, the adjustment to present value of the contingent portion of the earnouts that we have in these acquisitions. And together, they account for nearly BRL30 million in adjustments, that while we are recomposing from BRL4.5 million to BRL29.7 million in the period.

I stop here and I think now we can open for questions.

Questions And Answers

Operator

(Question And Answer)

The question-and-answer session is now open. (Operator Instructions) The first question is from Mr.Bernardo Guttmann, sell-side analyst of XP Investimentos. Mr.Bernardo, you can open your microphone now.

Q - Bernardo Guttmann {BIO 22426541 <GO>}

Good afternoon. Can you hear me well. Thank you. Thank you for taking my question. I have two questions. The first question is about the margin. I think de-stabilization of your margin was important. After several M&As, there seems to be a clear opportunity for ramp-up now to raise this curve as you capture the synergies and benefit from this ecosystem. So can you please explore a little bit more about the trends for this year? Is this in fact the main driver for the composition of your margin or do you think you have other elements perhaps a lower rate CAC? I don't know how you're seeing your lead cost for the past few months.

And the second is a more strategic question about M&A. So I would like to understand what is your pipeline and what is the link that you are prioritizing in your ecosystem today the link between companies? And what are you seeing in terms of price? Is the private market already repricing? The company has a very relevant cash position. So perhaps you could give us more visibility about the speed of allocation of this capital.

A - Fernando Biancardi Cirne {BIO 22072821 <GO>}

Bernardo, good afternoon. Hello. Can you hear me well? Thank you for your question. So let me start by talking about the margin evolution for the inorganic portion of the business. I think that the greatest gain here was due to the alignment of the acquisitions with the business plan established at the time of acquisition. The acquired companies are doing well. They are following their business plan, which considers the revenue growth as you saw in our commerce net revenue and then over time, we will start to see operational leverage particularly when it comes to the dilution of costs of operations.

So this is much more related with that than CAC reduction, because these operations we want them to keep ramping up. So the margin is coming from operational gains, operational leverage gains. This is what we are seeing with this 3 percentage point increase. So we're very happy because we know this is in line with the business plan and this is not due to cost reduction. So this is good news for us. We didn't really need to force a cost reduction, which would equal failure to us, right? So to answer your question, I think this is the main reason for the margin gain from the acquired companies.

Now in respect to the M&As, I really like your question because it clarifies a point that we didn't mention in our presentation. I think the first point is we made a lot of acquisitions and we acquired these companies because we had cash, but more than that more importantly because we needed to complement our ecosystem and there were companies available in the market for that. So that's why we rushed and we bought these companies. They are wonderful companies that are performing really well, companies that we really needed to include in our ecosystem to incorporate in our strategy to provide complete services to small and medium businesses.

We know that small and medium businesses do not survive one integration only. We really believe this idea that SMBs, they need to have one single journey or unified journey with us. So now we're working really hard for to speed up integration. So are we still monitoring the market? Yes, the screening of the market is still being performed using the same process, the executives of the company, myself, Gilberto, our founder and the other directors here with us today. We keep monitoring the market, but now we are not in a hurry, because our ecosystem is pretty complete. But of course, there will be more opportunities. The e-commerce environment is -- it will become more complex everyday. So it becomes more and more complex. So there will be opportunities in the future.

So there will come a time when we will have to acquire more companies. But right now, we are not in the pressure and this is very much in line with what you asked about the price. We work with discounted cash flow and in that sense with a higher interest rate, our payment availability is lower. So there's still a match gap market. For example, the public market there was a big drop. For the private market, the drop was not that significant. So we still see higher prices in the private market than in the public market. So this means that having a complete ecosystem with higher interest rates and the price gap regarding what we can pay to the market, this is what puts us in a position right now of where we are slowing down in terms of acquisitions.

We don't have to rush. We don't have to run to acquire new companies and we are working on the integration of the companies we acquired and this process is going really well. This is something that we have been doing really well, the integration of the acquired companies. So this is a good match with the current moment. We had a very accelerated period where we made a lot of acquisitions and now we're focusing on integrating them. Thank you Bernardo for your question.

Operator

The next question is from Mr.Andre Salles, sell-side analyst of UBS. Mr.Andre, we will open your microphone.

Q - Andre Salles {BIO 21200349 <GO>}

Good afternoon Cirne, Guilherme, Rafael and the rest of the team. Thank you for the call and thank you for taking my question. Congratulations on your results. I have two questions actually. My first question has to do with the margin of acquired companies. You talked about the recovery of the margin for Squid. But can we drill down on those 3 percentage points of expansion? How much of those 3 percentage points come from Squid and how much comes from the acceleration in the revenues of Bling and Melhor Envio?

And my second question is I want to have a clearer vision of the market dynamics. Is there any relationship between price increase and the change in conditions that we saw in some marketplaces now here in the first quarter and this increase in the volume of Locawebs on stores? So these are my two questions.

A - Fernando Biancardi Cirne {BIO 22072821 <GO>}

Thank you for your question. So let me start with your second question. No, this doesn't have to do with the marketplace situation. We have a strategy that's very interesting, which -- it's an empowerment strategy. We empower our stores. We think that marketplace integration is very important and we even have that assessed by third-party companies. We have the best integration in the market. This is very easy to see with the marketplace is not just in terms of quality, but also the volume of marketplaces with which we are integrated customers. When they visit a store, our customers, when they start a store online, the first thing they do is integrate with marketplaces. This is a natural step of the journey. However, we don't want our customers to only sell through marketplaces.

We want our customers to have more control over their marketing efforts. This is part of our strategy. We want customers to learn how to do their own marketing and this has to do with what Williams was talking about, about the wheel. This is about our customers selling not just or doing marketing not just on Google, but they will start to do email marketing. They'll integrate with WhatsApp, Instagram, Facebook and they will be able to better control their efforts. And this of course is very -- could lead to a reduction in the cost of acquisition of customers for these stores, but we don't want them to be dependent on marketplaces only. This is very important for us. And there's another strategy here which is, the e-learning strategy.

We teach our customers to how to use other sales platforms and this is boosting the use of other sales of systems or sales methods. So that's what I was talking about. This increase in the use of other sales platforms in relation or in comparison with marketplace, it's not because the marketplace area is doing bad, but because the other tools are doing well. This is an indicator of how successful our e-learning strategy has been, our integration with other tools and it is an important indicator of the success of our customers.

Now considering the margin increase from our inorganic operation, we are not going to go into details. We're not going to give you numbers, but this is not just due to Squid. Of course, there are gains that are from Squid, but there are gains from each of the operations. So this gain comes from all the operations and this is what allows us to reach nearly 3 percentage point increase in our margin. And today we are at minus 8 as we said, but we must consider that it's minus 8, but this is for companies that we acquired less than one year ago. We started making our acquisition six months after IPO and we just finished our acquisition. So we are at minus 8. On average, we are a lasted one year after the acquisition of three of these companies and we already see this ramp up. So we consider these numbers very positive as I said and this was due to the very good alignment with the business plan. Thank you.

Q - Andre Salles {BIO 21200349 <GO>}

Thank you.

Operator

Next question is from Mr.Vitor Tomita, Goldman Sachs. Mr.Vitor, we will open your microphone now and you can ask your question lies.

Q - Vitor Tomita {BIO 19238819 <GO>}

Good afternoon, everyone. Thank you for taking my question.

Operator

Vitor, I think you're muted.

Q - Vitor Tomita {BIO 19238819 <GO>}

Sorry. I apologize. Good afternoon, everyone. Thank you for taking our questions. Our first question is about your GMV. So how do you see the trend for the GMV of the platform and of your ecosystem in quarter two considering that the e-commerce market is showing some deceleration? And thinking of your consolidated business, you talked about the margins for the acquired companies. But in general terms, can you please explain whether you see any risks for your margin related with the increasing inflation rate or whether you have been able to pass on the cost of inflation to the price of your subscriptions and services?

A - Rafael Chamas Alves {BIO 21792610 <GO>}

Hello, Vitor. How are you? So let's start with your last question about inflation. So let's recap how we monetize the business. We have subscriptions and we have the GMV based businesses. So the inflation for take rate based businesses indirectly of course we will have a readjustment because in the end of the day, the transaction volume for GMV will be impacted by the inflation and our revenue will be impacted by the inflation. And for subscription services, it's the same. In our contracts for most of our products which account for the highest percentage of the company's revenue in the contract, we are entitled to adjust based on inflation rate and so the prices of our products we have been successfully adjusting for inflation over time. So the answer is yes, we can recompose our margin. We are just in based on inflation or for subscription or take rate based businesses.

The second point about the GMV, I think that more importantly than talking about this short period of two quarters, I'd like to reinforce what Fernando said that, in the past two quarters, our numbers are showing that our solutions and our capacity to increase the sales of our customers on their own channels, on their private channels, this strategy has been really successful. This is a profile that we continue to see this acceleration or this faster growth within the terms of our value proposition, which is to increase sales for our customers. So this is something that we continue to see. So an indirect answer to your question is that we continue to be able to increase the level of success and sales of our customers, which is our utmost objective when we think of an ecosystem and not just the platform.

Q - Vitor Tomita {BIO 19238819 <GO>}

Thank you, Rafael.

Operator

And the next question is from Mr.Marcelo Santos, JP Morgan. Mr.Marcelo, we will open your microphone now.

Q - Marcelo Santos {BIO 3999459 <GO>}

Good afternoon. Thank you for taking my question. I have two questions. My first question is about the margin from the inorganic growth. You mentioned in your earnings release that a great part of this improvement has to do with the better performance of Squid this quarter. But Squid's revenue didn't really change from quarter four to quarter one this year. It increased about BRL1 million according to the data that we have here from BRL16.4 million to BRL17.1 million. So what led to this improvement in margin because it doesn't seem to be the scale -- a gain in scale?

And my second question is a more generic question. Can you talk about the competitive environment now that we see some deceleration for e-commerce? Do you see any type of acceleration on other platforms or any different behaviors?

A - Fernando Biancardi Cirne {BIO 22072821 <GO>}

Hello, Marcello. Thank you for your question. Let me start with your second question. So, let me talk about the competitive environment. No, we have not seen any stronger competition, any change in competition and we are monitoring this market both quantitatively and qualitatively. And what we see is that Locaweb has been increasing its distance from its competitors, and this is happening two ways. We are monitoring what's happening with our sales volume. So quantitatively, we measure ourselves volume and qualitatively, we hire consulting firms to assess our platforms and even some banks. We hire these research companies and we can compare and see that our ecosystem in terms of quality it is much superior to that of the competition.

So we're very happy in this sense. And I always say that we always look at three things. I have to maintain my margins, like we have to maintain organic margin. So I have a commitment with the market. I have to maintain my organic margin and I even have to increase it over time. So those 35% I have to maintain and then I start -- have to start increasing and I have to gain margin from the inorganic. I have to also maintain the volume of new additions to grow my customer base and this is all possible if I keep my distance from the competition. Because if I can't keep my distance from the competition, I'll have to invest more in marketing and this will ruin my margin. So we have been able to do something really nice, which is to maintain our distance from the competitors and to be way ahead of the competition still adding customers and maintaining our margin. And this tripod is something critical, is something very rich and this is what will ensure our results in the future.

Another thing that's very important is that the margin gain that we had from inorganic. It's not just due to Squid. Yes, Squid has a relevant role there. I can't really tell you what is the margin from Squid or from the other companies. But what I can tell you, actually I'm going to hand it over to Aline and he is going to tell you why Squid had some EBITDA gain this quarter. Thank you, Marcelo.

A - Aline Goldsztejn {BIO 22283442 <GO>}

Good afternoon, Marcelo. Good afternoon, everyone. Thank you for your question. It's -- this one is easy to explain. Squid is basically an operation that is a technology platform that manages influencers. So the more we optimize the long tail influencers management, the higher my gross margin. So I can get more profit with the same investment. So our work this quarter was focus. Even our revenue didn't increase that much. We were focused on having more profitable operations for Squid as a whole and also for the allocation of the customers' funds. So this was basically due to a better allocation of investments and this was very much based on further exploring the influencers that we have in our base and this increases our margin. I don't know if I answered your question.

Q - Marcelo Santos {BIO 3999459 <GO>}

So you mean these are -- you have more influencers, but they are not so renowned. So this increases your margin?

A - Aline Goldsztejn {BIO 22283442 <GO>}

Yes. Improving the mix was really helpful here.

Q - Marcelo Santos {BIO 3999459 <GO>}

Thank you.

Operator

The next question is from Victor Hugo, Credit Suisse. Victor, you can ask your question. Now your microphone is open.

Q - Victor Hugo {BIO 1874627 <GO>}

Good afternoon. Can you hear me? Good afternoon, Guilherme and the rest of the team. Congratulations on your results. Thank you for answering my question. I have two questions. My first question, I want to understand the dynamics of the BeOnline & SaaS organic margin. There was a decrease year-over-year. Actually, there was a decrease compared with '21 and '20. So, was there any seasonality or specific reason, specific event this quarter or should we expect this BeOnline & SaaS margin to be at lower levels looking forward?

And also the second question is about Melhor Envio and Bling. You saw some very good growth of about 70% in quarter one. But now considering the deceleration of e-commerce in Brazil as a whole, do you expect some deceleration in this growth in the coming quarters?

A - Rafael Chamas Alves {BIO 21792610 <GO>}

Hello, Victor. This is Rafael. How are you? So about the margins for BeOnline & SaaS, we have been trying to make this really clear. This is a segment that or whose margin will be a little more volatile than what we saw in the past quarter 17, 18, 21, but in the long-term, it will always be pointing to this average or to this level. So why do we see this type of volatility. This is a sector that has a more intensive dynamic in terms of expenses, so what we're was spending with cyber security, spending with a certain software dynamics, event. We have some major events. So that's why there is no linearity here. Commerce has been more linear. Of course, there may be some volatility, maybe one or two points up or down. But we don't expect it to move away from that average of 17, 18. This is something that we always say when we talk about our earnings and this is the dynamics that we expect for the future. Now, as for the demand Williams [ph], would you like to answer that one?

A - Unidentified Speaker

Yes. Good afternoon. Thank you for your question, Victor. The two operations are somewhat similar in this sense when it comes to customer acquisition Melhor Envio and Bling are agnostic operations that although they're growing in synergy with our ecosystem, the two operations have this behavior of being present in the e-commerce of all platforms. They work with customers of all sizes and they are pulverized through the different platforms. So our expectation is that what's driving our growth is much more the acquisition of new customers, the very distributed acquisition, constant acquisition of new customers. And the two platforms also have a very competitive entry price.

Bling and Melhor Envio are products that serve customers from the smallest of sizes and we understand that our customers are serving on this increasing digitization trend that still continues. So although there we are expecting some stability in e-commerce and this may affect even the major players. From the standpoint of customer acquisition and growth of smaller customers, we don't expect to see any deceleration in that sense. So, our expectation is that they will continue to operate well and they will keep the same level or the same speed in the coming quarters.

Q - Victor Hugo {BIO 1874627 <GO>}

Thank you. That was very clear.

Operator

The next question is from Mr.Cristian Faria with Itau BBA. Mr.Christian, we will open your microphone and you can ask your question now.

Q - Cristian Faria {BIO 21795660 <GO>}

Good afternoon. Thank you for taking my question. I have two questions. First, let me try to make it parallel with what you announced in the last quarter. But how can we better understand this organic growth looking at the -- your older customers? And second, I'd like to understand what is the evolution of your churn for the older generations of customers and also for your newest additions?

A - Fernando Biancardi Cirne {BIO 22072821 <GO>}

Let me start with the evolution of our organic growth. First, I want to clarify what we call organic growth. Organic growth to us is the revenue of all the companies that we had before our IPO before these new acquisitions that we made post IPO. In our annual results, we talk about the cohorts of companies, which gives us a good idea of when we separate older brands from the newer additions, also the monetization of the company, which has a direct reflection on how we see those cohorts. We have growth that comes from subscription. So cross-sell of new subscriptions or up sell customers that upgrade their services with us and of course, this has a ceiling. This has a limit until the new acquired companies start having more cross-sell. And most of this evolution over time has to do with transactional revenue. So revenue that we captured through the GMV evolution of our customers.

So the fact that we share with you that the private store growth is superior to what we see in marketplaces. This is very positive when we think of this evolution. So this target that we have to help our customers sell more with using our ecosystem, of course, this should be reflected on the transactional revenue and you see that that our TPV and our payment revenue have been growing. So what we should expect and what we are seeing the past few years is an evolution in these cohorts based on this transactional performance, which is TPV oriented or revenue from our ecosystem. And of course, the revenue is also growing due to the new additions. So this is what makes up the organic growth as we call it. Some upsides that we should see in the midterm are for example, new ways to monetize this GMV or subscriptions themselves by adding more features to an existing product. For example, our customer service or help desk tools.

They can allow us -- they allow us to increase the price, increasing the subscription ARPU of the company and at the same time this could bring us a higher GMV and new ways to monetize the GMV. So we're just starting our trajectory in logistics. Melhor envio as you could see is growing exponentially, but it still is a incipient penetration levels very far from the 70% that we have in payment solutions. So there are other ways to monetize this transactional dynamics of the business in addition to the GMV. And sorry, I have to answer your second question. Can you repeat your second question, please?

Q - Cristian Faria {BIO 21795660 <GO>}

Yes. Sure. I'd like you to talk about your churn and what are the expectations in the short-term?

A - Rafael Chamas Alves {BIO 21792610 <GO>}

Of course. I think that there's a calculation that you can -- it's very simple calculation that you can make based on the earnings. But if for a few quarters we have a stable growth addition of stores, you can infer that the churn is stable and controlled and this is what we are seeing in practice. And when we go in more depth in our cohorts what we are seeing is a very similar churn behavior, very similar to what we had before the COVID pandemic. And then during the peak of the pandemic what we saw was a change in our customer profile. So we started to see more offline customers coming to online because they wanted to start selling online.

So these are customers that usually are more successful, because they have a brand. They have inventory. They know how to do business. They are retailers. So that's the profile that a customer that has a lower -- considerably lower churn, but these are people that are more tech-savvy I would say. So in the end of the day, when we look at the average, what we're seeing is good stability from the start of the COVID pandemic and behaviors that are very similar to that of older cohorts of customers. And the best way to see this is by looking at the gross addition of stores, which is stable with a linear growth.

Q - Cristian Faria {BIO 21795660 <GO>}

Thank you, Rafael. Just a follow-up question. Here for BeOnline & SaaS, I think it's the second quarter where we see a slight reduction. It's nearly flat actually. So how should we expect the addition of new customers looking forward?

A - Fernando Biancardi Cirne {BIO 22072821 <GO>}

Higor, can you answer that one?

A - Higor de Araujo Franco {BIO 20542871 <GO>}

Yes. Christian, here for BeOnline, what we see is a SaaS -- SaaS is still advancing over the customer base o BeOnline or more traditional older base for BeOnline and SaaS has gained record breaking share in relation to the BeOnline share in this last quarter. We also have a stabilization point for one of our new operations, which is add tools. Add tools showed some stabilization in the past quarter in terms of customer additions that this was corrected. This curve was already reversed in the start of April or the end of April, start of May. So this is also a reflection of what you see in BeOnline. So these are the two movements you see at BeOnline that is more stable even with the advancement of the

SaaS and add tools that had this movement in the end of last year that was corrected in the beginning of this year.

Q - Cristian Faria {BIO 21795660 <GO>}

Thank you.

Operator

Since we have no further questions. This session is now closed. Now I'd like to hand it back to Mr.Fernando Cirne for his final remarks.

A - Fernando Biancardi Cirne {BIO 22072821 <GO>}

Thank you all for your questions. These were great questions and they were a perfect fit for this conference call. We had a chance to talk more about our acquisition strategy, about the inorganic margin gains. So thank you so much to all analysts that attended and sent their questions. We were very happy to be able to answer to all your questions. Thank you so much for being here, for taking the time, for your support over the years. And my final takeaway for you today is that the takeaway is consistency. I think that's what Locaweb is been showing. Locaweb has been showing consistency since its IPO in terms of sales volume, in terms of customer base expansion and our strategy.

The strategy was set before the IPO and we're delivering on this strategy. We're executing and making it a reality. That's what we're working towards. So thank you all for your support. I'd like to thank all our employees and the market analysts and especially our customers. Thank you for your trust in our company. We hope to see you again three months from now to announce the results of quarter two. Thank you. It's been a pleasure. Have a great day.

Operator

LocaWeb's quarter one 2021 conference call is now closed. Thank you all for attending. Have a great afternoon.