Q3 2021 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
- Willians Cristiano Marques, Commerce Director

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Locaweb's Conference Call to announce the Results of Quarter Three 2021. Today we have with us Mr.Fernando Cirne, CEO of the company; Mr.Rafael Chamas, CFO and IRO; Mr.Higor Franco, BeOnline and SaaS Director; and Willians Marques, Commerce Director.

This call is also being simultaneously transmitted over the internet via webcast and can be accessed at URL www.ri.locaweb.com.br by clicking on link webcast Q3 '21. The slide presentation is also available for download on the webcast platform. This call is also being simultaneously translated into English for the convenience of the company's foreign investors.

Before we proceed, I must inform you that any forward-looking statements made during this conference call relative to the business perspectives of Locaweb as well as projections and operating and financial targets are based on beliefs and assumptions of the company's management, as well as information currently available. These forward-looking statements are not a guarantee of future performance. They involve risks, uncertainties, and assumptions, since they refer to future events and therefore they depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of Locaweb and may lead to results that differ materially from those expressed in such forward-looking statements.

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

Fernando Biancardi Cirne {BIO 22072821 <GO>}

Thank you very much. Thank you all for participating and like to thank our employees, shareholders, and everyone who contributed to the great results that we are presenting here today.

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Let me start on Slide number 2 with the quarter highlights. Even with the reopening of the economy and with a strong comparable basis, when we compare with quarter three last year, when we already had a very high level of digitization, we still achieved impressive results. The consolidated net revenue grew by 65.7% year-over-year and year-to-date a 59.3% increase.

When we look at the Commerce segment, the growth was 162%, very expressive and year-to-date a 166% increase. Our customer base grew by 41% in the first nine months of 2021, and if we consider the acquisition of the Bagy e-commerce platform in quarter three '21, this growth reaches 96% in the same period, which means that our e-commerce platform practically doubled in customers in this period. And our commerce segment reached approximately 123,000 active paying subscriptions.

One important point is that we had higher investments in R&D and marketing, particularly in R&D and I'm going to go into more details. This was a conscious controlled decision of the company and why did we make this decision. First, because we still have low penetration of commerce in Brazilian retail. We have not decelerated and we don't want to decelerate with the reopening of the economy. We want to maintain our very expressive distance from our competitors and particularly because R&D is an expense that can be diluted over time. When we add these four points, it is a conscious informed decision of the company that we find very assertive and we are already seeing results.

We saw some results in quarter three, first, in our sales, as you're going to hear shortly. And second, in the strong evolution of our e-commerce platform. And we're going to spend a good portion of this presentation talking about how we are evolving -- technically evolving our platform. We had an acceleration in the release of new features and an increase in the volume of integration.

So now, we have more than 500 integrations for our e-commerce platform. Our integration agenda keeps advancing even with our high volume of the acquisitions and the acquired companies are performing better than in the period prior to the acquisition.

We had substantial progress in our acquisition agenda with the acquisition of Squid, and the acquisition pipeline is not slowing down even after the 13 acquisitions that we already completed since our IPO. And finally, last but not least, we have significant advances on our people and cultural agenda.

On Slide number 3, here we see a very expressive acceleration of our net revenue in the past eight consecutive quarters. And the highlights here, well commerce already accounts for more than 50% of the net revenue of the group. To be more precise, it accounts for 51%. It moved from 46 in quarter two to 51% in quarter three '21. And most importantly, we see a trend -- a positive trend looking forward.

On Slide number 4, here, we have the addition of new stores. As I said, Locaweb believes that the penetration of e-commerce in Brazil is still low. So there is a good opportunity here to keep focusing on growing our operation and this is something that we already

saw this quarter, even after the reopening of the economy, where we're still able to maintain a strong pace of addition of new stores and this is a great achievement for us.

And how did we do that? By expanding our acquisition channels, by expanding our channels and our customer acquisition efforts, in addition to more investments in marketing, strengthening of our commercial teams, and the strong evolution of our product. And everything goes together here, product, commercial teams, marketing and our sales channels, and commercial teams and product evolution is a pair that really helps us acquire new customers.

So compared with quarter four 2020, we had a 38.3% increase in store additions, which is very interesting. But even more interesting is that we were able to maintain these numbers in quarter three, and considering Bagy, this growth rate reached 54.4%. So it's worth noting that quarter three had no effects in terms of store addition for Locaweb.

On Slide number 5, here we see that an important part of all this is the positive evolution of our customer base on the e-commerce platform. If we compare since January 2019, now we have a 4.8% increase or a 97% increase compared with the end of last year, very impressive. And this resulted from all the marketing efforts, the product development efforts and all the hard work that we did.

On Slide number 6, we see this also results from this acceleration in our technical development. Willians and Higor are going to talk more about this, but I'm going to go over the integrations. We have now reached 500 -- more than 500 integrations of the Tray platform with other partnering solutions. And our competitors are far behind in terms of the number of integrations they have. We have more than 500 now. And another important fact, we'll have integrations with sales systems, methods of payment, customer service, logistics, ERPs, marketplaces and so on so forth.

And another important fact about our competition is the level of proficiency that the Tray solution has reached. One exempt indicator to evaluate this is the Reclame Aqui index. In this quarter, Tray reached the best score possible, which is the RA 1000 stamp. Our three major competitors do not have the RA 1000 stamp. One is evaluated as great, one is good, and one is not recommended. So when you look at this service level, Tray is the best among its competitors. And when you look at the volume of integration, we still have the highest in the market and that's why we will keep accelerating. We are in a very comfortable situation. We are in a very good position. We have the margin. Our organic margin was 42% and we reduced it in a controlled manner to 32%, so that we can gain even more momentum to beat the competition. We are in the position to do that, and this is certainly a competitive edge that Locaweb has right now.

Now moving on to Slide number 7. This quarter we acquired the company Squid that will further enrich our ecosystem. Squid is a leading platform in influencer marketing in Brazil. They work with the major brands in the country. And now, with Locaweb, it will be able to expand its work for SMEs. It is a friendly platform. It works with automation algorithms and machine learning to recommend the best influencers for its customers.

Some important facts about the platform, it has more than 100,000 influencers register. The CAGR in 2021 is 130%, which is very expressive and an ARR of 100 million. This is to show the appetites of Locaweb for larger acquisitions. 100 million in ARR, it's one of the largest acquisitions that we have made so far.

On Slide number 8. This is how our ecosystem looks like currently. We are not just a provider of platforms. We do have five platforms. Our platforms are in the center. We have Tray, Dooca, we have Samurai and Bagy. Then comes conversational marketing, ERP, Bling, Vindi, and then we have our peripheral systems. For example, our conversion with Social Miner, Allin. We have Squid, generating media through influencers. We have Etus for social media, Ideris for marketplace integration, Yapay for payment, CPlug with POS, Credisfera for financial services, and Melhor Envio with logistic integration.

For those who haven't heard our positioning, why are we using this concept of ecosystem instead of a platform because this provides a better journey to our customer and we're doing everything in one single dashboard. This will lead to increased ARPU, reduced churn and accelerated customer acquisition because each of these customers will work as an acquisition channel for other customers.

And this slide is very distant, Slide number 9, because it shows how we are investing in the customer journey. Well this is an example of a customer journey inside Locaweb. It's not the only possibility and each customer will use our services and products in the order more convenient -- most convenient to them. But for example acquisition, we have five tools for customer acquisition. We have Social Miner, All In, Etus, Squid and Ideris. And all of them can generate sales to six of our platforms Tray, Tray Corp, Dooca, Bagy, CPlug and Samurai. CPlug is a POS that also works as a platform for orders.

Then conversion - the improved conversion can be captured by Octadesk, All In and Social Miner. Payments, if you have recurring payments or subscription payments, they can be done by Vindi or Yapay for regular payment. Management and integration can be done by Bling, Ideris and CPlug. Logistics can be done by Melhor Envio. And retention and loyalty of these customers is through All In, Social Miner or Octadesk. And this is all supported by the financial services of Credisfera. So this is just one example of how customers can use all our tools.

This slide makes it clearer that we are working with a necklace system. We're not just offering platforms alone. And this is not yet complete, we will continue to invest.

And now on Slide number 10. You see that our M&A process is now just as active as before. We are not slowing down. This is our current funnel. We have a very active M&A area as I said that evolves the company stock management. I am strongly involved together with members of the board and other C levels of the company. And today, we have 5 MoUs that are either signed or under negotiation. So the company does not intend to slow down its M&A process.

And another benefit from all these acquisitions is that today, we have the largest and the best team of digital entrepreneurs. Here, we have all the names that have joined us in

these M&A processes. We have 20 top talents that have joined our team and are working with us today. And what do we get from this? We have a pool of talents for the company and that is very strategic for the group. This helps us retain people. This helps us attract talents. And finally, this helps us bring more companies to our M&A radar.

As you heard last quarter and it's not different this time, the acquired companies considering our very structured integration process and the high synergy of all its acquisition, all their acquisition operations. These companies are growing at a much faster pace than they were before they joined the group. Here we have some examples. So just to give you an idea, Melhor Envio, increased its customers by 130%, compared to last year. The Dooca platform increased by 105%. Melhor Envio had a shipping -- increase of 90% in its shipping GMV. Bling has 63% more clients, and Vindi TPV grew by 65%. These are just a few indicators that show the success of our M&A strategy.

And finally, as for people and culture, we were listed as one of the great places to work and we received the GPTW certification. And Tray was number 17 among all companies in Brazil, mid-sized companies and KingHost was 22nd. We are a company of people. So this makes us really proud. Of course, we are a technology company, but in order to have technology we need to have people. So this is very rewarding and a reason for pride.

And still about people and culture. We launched our 2021 trainee program and we really strived to bring minority groups into the company. And we were very successful in that endeavor. We were able to diversify our payroll and now 50% of the trainees approved were women, 30% were from the LGTBQIA+ group and 30% were black, which is also a great achievement for our group in terms of diversity and inclusion. And this shows that the group really cares about these topics.

Now, I hand it over to Higor and Willians and they're going to go over the impact of our investments in technology and the new features that we're adding, which have been very important for the group. So Willians and Higor, the floor is yours.

Willians Cristiano Marques {BIO 21482481 <GO>}

Thank you very much Fernando. Good afternoon, everyone. This is Willians. I'm the Commerce Director. And let me give you some light on the numbers of the quarter. We had some important innovations and one of them was the launch of our intelligent campaign functionality on WhatsApp. This is a very innovative project, unique in Latin America, and it comes from a partnership with Facebook that owns WhatsApp to start to empower small businesses with the power of e-commerce. So we're enabling small stores to run campaigns on Facebook, to retain customers, to convert customers and also marketing campaigns.

This is a totally new tool, unprecedented and Locaweb's ecosystem allowed us to create this campaign with Facebook. Of course, there's an intelligence behind it. It comes from All In and Social Miner, which allows us to identify the behavior of our customers to start these campaigns at the right time.

We have a very powerful tool that allows us to send a message to the cell phone of every consumer and today in Brazil, practically the entire population has smartphones and practically 100% of them use WhatsApp. And of course, we comply with all the privacy criteria. Tray was chosen by Facebook to conduct this project because it has all these intelligence behind its work to create very assertive campaigns and it complies with all the applicable standard.

So we create personalized campaigns, shopping cart recovery, and coupons and this tool, together with other tools that I'm going to present shortly, strengthens our focus on improving the rate of success of our customers in their own website. So the more visitors customers can bring to their website at a lower cost, the better for us. And this comes with social commerce, mobile commerce, and with these interactions between the store and these mobile features.

Now on Slide 17. This is another partnership with Facebook. We expanded all the integration solutions that we have, such as the Facebook portal itself and Instagram. And this is to simplify the process to allow our customers to advertise their products on Instagram, to have a catalog of products on Instagram, to advertise both on Instagram and Facebook. And most importantly, they can measure their results. So we have a new conversion API, which was made available.

And Tray is one of the first to integrate with this API and this will allow our merchants from the dashboard, inside the tool to have all the information about their campaigns, just like in WhatsApp that they can also operate through this single dashboard. They also have the ability to operate through their store, operate on Facebook through their store. So they can update catalogues and run campaigns and measure their conversion rates.

On Slide 18, this is a cross-sell project in our integration and we have now made available to all our customers integration with Melhor Envio, which brings an operational benefit to our customers, because they have access to different carriers and they have a real benefit of saving in the shipping cost and they can also offer these options to their clients, which allows them to save productivity time in order to print the labels, and everything related with logistic management can be done from their dashboard. So in addition to the cross-sell with another tool of the group that was recently acquired, this is also a great benefit to our customers and this is already available for the entire customer base of Locaweb. So this is an integration for which we are already seeing a lot of success.

On Slide 19. We have a recent launch, which is E-ComClass. It is a content platform, very high quality content through a portal, where our clients can watch business videos, videos about sales strategies, commercial strategies, strategies to promote their business. E-ComClass has exclusive content produced by our teams and our partners and it works on a subscription model. So it is the Netflix of e-commerce, we always say. And our customers can access it for free. This product can be used by anyone, but if you're a Locaweb customer, if you subscribe to any of our solutions, one of your benefits is that you can use E-ComClass free of charge. So we are increasing our focus on content and learning for our customers.

On Slide 20. Here's Locaweb's payment strategy. For payments, we have a very strong agenda and we made the decision of increasing our focus and strengthening our strategy in payments. And this resulted in unification of the payment operations in our e-commerce unit. So Yapay, which is our solution for transactions, for payment transactions, which is seeing a lot of growth. And now we are implementing Yapay for the Vindi customer base. Vindi works with subscription payments. And in the past few months, we had very expressive results and months after months we will keep seeing an acceleration of these results. And due to this relevance, we decided to unify our efforts and Dantas, the Founder of Vindi is now leading our payment methods division.

This is the first step to increase the payment solutions that we can offer our customers. We will start with Vindi and Yapay, but we are already considering the expansion to other financial solutions in the future. Vindi already has a strong presence in subscription payment management. It works with collections, subscriptions and all the automation. If you have a subscription business, subscription-based business, and Yapay also has a very consolidated process for payments. So this is naturally consolidated union of the two solutions. And now Dantas is going to lead the evolution of our payment agenda in the group.

Now, I turn it over to Higor and he's going to talk about the BeOnline & SaaS.

Higor de Araujo Franco {BIO 20542871 <GO>}

Thank you, Willians. Good afternoon, everyone. On Slide 21, here, we have two launches that we have this quarter under the umbrella of SaaS and which have a lot of synergy with the online customers.

One of them is Go E-mail. E-mail continues to be very strong among Locaweb's customers. Our customers continue to use e-mail very frequently and e-mail is a type of product that is still growing consistently in our portfolio. Go -- the Go E-mail is an initiative that puts Locaweb in the competition for collaboration and productivity tools which was something that we didn't have in our portfolio before. We used to have an e-mail solution which was previously positioned for the entry level with simpler and more limited solution. And Go E-mail comes to complements that previous solution with much -- with many more features. So Go E-mail delivers mobility connectivity, collaboration, sharing of calendars, contact. This is a very important first step in our SaaS portfolio to compete in a productivity and collaboration.

Another relevant product that we launched this quarter is the Clic Lead. Clic Lead is a plug-in solution and when the customer is creating their website in Locaweb, they can connect their website with WhatsApp. So whenever you visit a website and you see a WhatsApp button to send a WhatsApp message, you're probably seeing the Clic Lead product behind the scenes. It's the Clic Lead product operating.

The Clic Lead gives our customers the option to interact with their clients through WhatsApp on their website and Clic Lead also allows them to manage these contacts, so they can manage contacts, they can manage the LGCP, everything related with the

relationship of the store and their contact. They can ensure the privacy of the data in this exchange of messages with customer. So Clic Lead is an addition to our hosting and website portfolio.

On Slide 22, another very relevant fact that I want to share with you today is that we had a very significant progress in the joint offer of Delivery Direto, our own app for food services delivery and it's integrated -- the integrated offer with the CPlug, our POS platform. So now we have this joint offer and Delivery Direto customers have the option to use the CPlug POS in an integrated manner, in a very connected manner. And this integrated offer already accounts for 15% of the bookings of Delivery Direto.

So 15% of everything that is sold every month on Delivery Direto is already considering this integrated offer and using the CPlug POS functionality. This is very relevant. The two operations have been connected for a little over three months and this integrated offer already accounts for this very expressive portion of Delivery Direto sales.

Now, I hand it over to Rafael Chamas, and he's going to go over our financial results.

Rafael Chamas Alves {BIO 21792610 <GO>}

Thank you, Higor. Good afternoon, everyone. So let's start on Slide number 24 with the quarter highlights. We had one more quarter with wonderful numbers. The net revenue increased by 65.7%. The Commerce net revenue, 162% year-over-year. Our GMV, and here we're using a fully comparable pro forma base increased by 43.7%, 4.5 billion in this period, very expressive. The Yapay TPV is also growing very healthily, increasing by 44.3% with 747.3 million in TPV in quarter three.

BeOnline and SaaS also had a good revenue performance increasing by 20%. And the gross profit growth was larger than the growth of the revenue. So there was an expansion in our margin and we closed the period with 1.8 billion in our net cash position and we have about 600 million earn-out booked in the company's liability. So 1.8 billion in free cash, without considering the 600 [ph] million that I just mentioned.

On Slide 25, we see our net revenue. We're closing the quarter with 209.1 million in the consolidated results of the company, Commerce has 105.6 million, an increase of 162.2%, and BeOnline and SaaS 103.5 million, a 20.4% increase.

On Slide 26. We see the net revenue for Commerce, specifically. So considering quarter three '19, quarter three '20 and quarter three '21, 21 million, 40 million, and 105 million, very expressive growth. We increased the size of the commence operation five times in two years, and two excellent revenue sources. Well, we can't really talk about better or worse revenue. All the revenues are synergic and complementary and they account for -- and Commerce today accounts for more than 50% of the group's revenue.

On Slide 27, we have our adjusted EBITDA. We're closing quarter three with 33.6, small drop year-over-year. Now, if we look at Commerce, it's practically stable, 16.7 million; and BeOnline and SaaS from 18.8 to 16.9.

Now, let's look at these numbers in more details on Slide 28. We already explained some of the effects of our acquisitions, but we -- let's start with the chart in the middle for Commerce. In Q3 '20, we had a 42% margin. Then we closed Q3 '21, organically excluding our acquisitions with 35% margin. And Q3 -- total Q3 is 15.8% and this difference comes from a marginal negative contribution of our acquisitions, which is totally in line with what we expected and what we advocate in our acquisitions. We're buying companies with high potential for synergies, with a good growth level that will be further accelerated in the future and we are not looking for profitability initially. We're looking for capacity to support and sustain growth over time.

Now about this organic decrease from 42% to 35%, Fernando already talked about this. But I must stress again that we have two components involved here. We have the acceleration in sales and marketing and R&D. And of these 7 points, 2.4% come from sales and marketing. So most of this decrease is essentially due to our investments in people, fix costs, the quality of what we do and the competitiveness of the company in the future. When we invest in marketing, these 2.4% means that last year we spent 16.7% in sales and marketing, and now in quarter three '21, 19.1. So just for your information in the second quarter this year, it was 16.3. So this is an acceleration and it's less than 20%, which maintains our CAC and our very healthy numbers. So that's for Commerce.

For BeOnline and SaaS. Speaking of profitability, organic margin is 18.3%. The difference is also due to the acquisitions that we made and in consolidated numbers, it drops from 22% to 18%. But when -- for organic only, it's 24.5% and it's worth looking at the behavior of the margins over a nine-month period.

So on Slide 29, looking at the year-to-date numbers, we have our consolidated organic margin very -- it's very close, 26.7% against 26.5%. For Commerce, it's 39.6%, close to 40% or the 42% of last year. And for BeOnline and SaaS, 20.7% to 19.7%, and this is due to the companies that we acquired.

Finally, before we open the floor for questions, let me go over to Slide number 30, the adjusted net income of the company. We also had a good performance. We generated 25.6 million in adjusted net income. And what we mean by adjustment is the accounting effects resulting from our acquisitions.

You see here the future earn-outs that we have to pay and altogether they represent 23.5 million. And these will continue to be relevant numbers that will have an economic impact on our net income. But when we think about cash generation and operational performance, they are totally in line with what we had to pay for the companies. We're talking about CapEx here and investments of the company. So the 25.6, we practically doubled this number year-over-year, because in quarter three 2020, the net -- adjusted net income was 13 million.

Operator

The quarter three results conference call of Locaweb is now closed. Thank you all for participating and have a great day.

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