Syonet Deal

Consolidated Investors Q&A

1) It would be helpful to have a deeper understanding of the team and their roles in the transition.
- Are there any roles that you think you'll need to hire for immediately?
- General commentary on any of the employees that you have met would also be helpful?

The current executive team is comprised of 5 of the sellers (the other 2 are not involved in the company). In terms of governance and roles, they currently run the company more as a "collegiate" than properly as executives with their own areas each. In practice, roles are very soft, and they make decisions together in all areas, which we'll have to change coming in. But loosely, the roles are as described on p. 14 of the CIM. Below is a general commentary on each of the key executives:

- **Aurélio Martins (CEO):** He is the "institutional" figure and the "face" of the company. He is the visionary, who first convinced the others to leave their previous DMS company in 2003 and found Syonet to focus on the CRM niche, and more recently in 2015 also foresaw the opportunity to enter the digital marketing niche. Well connected and respected in the industry and by clients. The main push for selling came from him according to others – Aurélio had a health issue recently, and in their words, they are now "sparing" him of some of the workload and stress due to that. He is interested in retiring after the transition is complete. Currently, Aurélio lives in Porto Alegre and works mostly from home. We have arranged for him to be available during the transition in a consulting role for the first year, as I step in as CEO.

- **Isac Campos (S&M Director):** A very smart and quick-thinking profile, he is very knowledgeable of the dealership segment and always thinking of new avenues for growth. He talks a lot and is very open minded to new ideas too. The marketing team under him seems to be thriving, with most new clients coming from it. He can be an asset especially in the S&M side where he already is focused, however his influence in other areas seems less helpful (i.e. inventing all these new products without much strategic thinking or focus). He has a lot of influence in the company and is the guy who speaks most in all our meetings. His son lives in Europe and his plan is to retire and move to Europe at some point, so we shouldn't count on him staying longer than the 2 years earnout period.

- **Jordani Caldeira (CPO):** Responsible for the R&D, despite not being a developer or even a tech bachelor (he's a BA in business and post-grad in Project Management). Jordani is clearly the most involved of the 5 in the day-to-day of the company, with a more "realistic" view of what is possible or not in terms of new growth avenues and R&D. He seems motivated and driven, and really loves the company, the brand etc., maybe even more than the older partners – having spent all his career working there. He was born in Montenegro and still lives there and works every day from the office with the R&D team located there. I believe he can be an asset beyond the transition, if properly motivated – given he's the youngest (only 38 years old) and has less than 5% of shares, he won't be rich or looking for retirement even after the earnout. He's a smart guy and very diligent in his work.

- **Daniel Correa (CFO):** Although he has no background in Finance (he's a Computer Science BS), he seems to be doing overall an OK job given that the Finance dept. is really lacking in investment. All accounting is outsourced, they have no ERP (only a very basic system built by themselves) and no one besides him working in the Finance area (the other 6 ppl. listed on p. 14 of the deck are HR-focused and secretaries). Younger than the senior partners (40 years old), Daniel still has energy to go beyond the transition and is willing to do so. Post deal he will stay in the CFO role and we will see how he performs with a proper team and system in place, then re-assess if we need to bring in a market CFO for the role.

- **Leandro Gonçalves (Sales):** Leandro has been a sales rep for his whole career and is clearly a very skilled salesman and knowledgeable of the segment and Syonet's products. Before founding Syonet he was a salesman for CNP (later Linx – DMS provider) for over a decade, so he knows the segment inside out. He is currently leading the commercial team (more so than Isac, who is more on a "strategic" role, he runs the sales reps on the day to day). However, here it seems the typical case in which a good salesman becomes a bad sales manager; The commercial team under him has no data, no CRM in place, no processes etc. Theoretically they use Syonet's own CRM according to them, but they don't actually use it – they cannot retrieve information such as a sales funnel, they had to manually put together the churn information for us (didn't have proper records), and in fact they don't even track these numbers. Leandro agreed to continue as a salesperson post deal, working under Isac in S&M.

Regarding roles to hire immediately:

- In the Finance dept. I believe we should bring in a Controller and maybe 1-2 jr. staff to aid him, to organize financial and accounting info, establish processes and prepare the ground for the implementation of a proper ERP.
- In the Commercial dept. we'll need to bring in a better manager – if not a proper market CSO, maybe a mid-career sales manager, more focused on processes and pipeline management etc., to coordinate the sales team which is currently disorganized.

- Finally, a more strategic HR manager. Currently HR is only 3 people, all of which are jr. staff focused on processing payrolls and filling vacancies, without a strategic focus on employee career planning, corporate culture etc. The sellers said themselves that events that were possible when the company was smaller such as football matches etc. are no longer happening due to the size of teams, a lot of new people hired diluted the initial culture and they see the need for someone to be thinking of employee integration and motivation full time as we grow.

2) How long are the contracts that the customers are signing? Believe they are annual contracts with monthly billing, right? How does the renewal process work?

R: CRM contracts: Are valid for an indeterminate period (i.e., they don't expire without a formal cancellation notice, and thus don't need to be renewed). They can be cancelled with a 90-day advance notice from the client without any cancellation fee (although the 90-day notice period does mean that the client will have to pay another 3 months if they cancel, anyway). They are adjusted annually by inflation according to the IGP-M index, automatically.

Digital Marketing Contracts: Annual contracts with automatic renewal at the end if the client does not cancel with a 90-day notice. If cancelled, clients are subject to a fine of 50% of the remaining contract value. The automatic renewal incorporates inflation adjustment at the IGP-M index.

3) How big is the average auto dealership in BRA? What we are trying to understand is whether it would make sense for auto dealerships to pay R$10k / month for Salesforce.

R: According to data compiled by us from the local dealerships association (Fenabrave) and ICDP consultancy, the average dealership in BR today is selling c. 32 cars a month at a median of BRL 64k per new car sold and operates at an est. 3% total profit margin, considering the contribution of aftersales which are typically 15% of revenues. Thus, the average dealership is a BRL 2.4M revenues/month business but generates only BRL 70k/month in profits before taxes. A Salesforce license is thus c. 14% of profits, which is a considerable expense, while Syonet and RD Station cost 1/10th of that figure.

Besides much lower cost, Syonet also has important product/feature advantages given it is tailor-made for this niche. If a group decides to implement Salesforce, they also face significant initial implementation costs because it needs to be customized/integrated with local DMS providers and BR car marketplaces, integrations that Syonet has natively built-in for all clients, without the need for customization/projects. And if the dealer group operates stores of several brands (which is typically the case), then these integrations would need to be done with each OEM etc.

4) How much would it cost to develop the adjacent products that are mentioned on slide 17 (growth strategy 3) and do we have the talent to do this?

R: This remains to be confirmed in the technical diligence especially re. existing company talent in the tech team, but the company believes the F&I module would be relatively straightforward to develop, requiring only the development of integrations with banks and major insurers to bring in the F&I quotes natively instead of using the third-party provider. This module is the lower-risk and highest return of possible new developments mentioned, and they have started discussions with Bradesco to implement it already.

Other further adjacent products mentioned on the deck (eSign etc.) are much more speculative and are given just as examples of possible future developments mentioned by the company, but which would need to be better studied further down the line. In any case, neither the financial model nor our LBO/returns analyses consider any of the future products mentioned, so all growth projected during the holding period comes only from existing products and markets, for conservatism.

5) In Brazil which companies dominate the DMS market for franchise dealers?

Similarly to the US, the BR DMS market in the franchised space is highly concentrated between 3 providers: (i) Linx (recently acquired by Stone - NASDAQ: STNE), (ii) NBS and (iii) Dealernet (which in 2020 received an investment from Volaris/Constellation). These are all local BR players, US players such as CDK Global etc. do not operate in Brazil. On the independent/used cars stores side, things are much more pulverized with stores using a variety of cheaper DMS tools, generic ERPs and customized systems made by local software houses.

One important aspect of the BR dealership market is that it is overall concentrated in big dealership groups. These groups in turn typically operate stores of several brands simultaneously, thus they will have a different DMS at the store level say for a Fiat store (NBS), another for a VW store (Linx) etc. Syonet seamlessly integrates with all DMS providers, so a major use case of Syonet by the dealership groups is to consolidate all these systems into a unified CRM platform to get a multi-brand, group-level view of operations.

I see this as a major value proposition and competitive advantage of Syonet VS. having only DMS in place. Furthermore, if you have only the DMS, they are really lacking in the CRM/marketing side, without native integrations to online car marketplaces / social networks / website etc., all of which are increasingly "must-have" to survive in a market in which customers are already overwhelmingly coming from online channels.

6) Do you have breakdown of what Syonet's penetration rate is by type of OEM brand?

Syonet has good presence across all major car brands, as can be seen in the table below. This is because most of their clients have stores of several different brands and use Syonet to integrate all their brands into a single CRM platform:

OEM	# Stores Brazil	# Clients (Syonet CRM)	% Share
Agrale	40	0	0.0%
Audi	43	20	46.5%
BMW (Mini)	53	10	18.9%
CAOA (Chery Subaru Hyundai)	143	17	11.9%
DAF	51	6	11.8%
FCA (Fiat, Chrysler & Jeep)	691	305	44.1%
Ford	131	90	68.7%
General Motors	362	203	56.1%
Honda (Cars)	212	88	41.5%
HPE (Mitsubishi & Suzuki)	113	2	1.8%

Hyundai	228	112	49.1%
Jaguar Land Rover	39	8	20.5%
Mercedes	140	28	20.0%
Nissan	179	89	49.7%
Iveco	73	15	20.5%
PSA (Peugeot Citroen)	244	107	43.9%
Renault	272	112	41.2%
Scania	105	6	5.7%
Toyota Lexus	188	94	50.0%
Volkswagen	409	180	44.0%
Volkswagen Trucks (Man)	123	25	20.3%
Volvo	102	36	35.3%
Kia Motors	67	17	25.4%
Jac Motors	12	10	83.3%
BYD	5	5	100.0%
Independents (Used Car Stores)	48,000	154	0.3%
Motorcycles (Honda, Kawasaki, Suzuki, Yamaha etc.)	1,944	146	7.5%
Agriculture Machines (CASE, NH, John Deere etc.)	971	56	5.8%
Totals	54,940	1,941	3.5%

7) How many dealerships groups have stores of several different car brands (i.e., how common are multi-brand groups)?

Virtually all groups have stores of different car brands. Brand-specific dealership groups are very rare in the Brazilian market for a couple reasons. Firstly, there is a push from OEMs themselves to avoid concentration in their distribution channel on the hands of a few groups. OEMs typically do their best to distribute franchises in a given region among different groups, and given groups are typically regional players, as they grow, they are forced to diversify into other brands when opening new stores. Secondly, dealership groups themselves also have as a goal not to be concentrated in a single brand for two reasons? (i) they also don’t want to be overdependent on a single brand for commercial reasons and (ii) final customers themselves vary in their brand preference, meaning groups in a region should diversify their portfolio among brands to cater to a larger audience. Therefore, virtually all Syonet customers are multi-brand groups, except for only two groups. Their typical customer has an avg. of 7 stores in the platform, typically 1-3 of each brand.

8) Is there a "cannibalization" risk between the existing Syonet CRM and the new "stripped-down" offer for independent stores (LeadStation)? Do they have any policy regarding to which types of client can buy one or another version?

There is enough product differentiation so that the two products do not compete. For instance, the simpler product (LeadStation) is not connected to OEM systems, to DMS/ERP systems, and does not have post-sales and repair shop features, among others. All of which are required features for franchised stores but not by independent dealerships.

Regarding client focus for each product and commercial policy, while the full version Syonet CRM is targeted at branded dealerships, the stripped-down version is only offered to independent and motorcycles stores, which typically seek more a "sales and lead management" tool than a complete CRM. Besides not needing connections to OEMs and DMS, these stores focus almost solely on car sales, not having the after-sales maintenance and support services offered by franchised stores. Thus, they also tend to not care too much to post-sales CRM features. Their use case is basically around unifying all leads coming from their website, the different car marketplaces (WebMotors, iCarros etc.), Google and social network sites etc. into one place and following these leads through the sales process, while franchised stores also have a strong focus on managing the client relationship ongoing for years after an initial sale.

9) What is the breakdown between "Others" and "No CRM" in the market share provided on p. 5 of the deck?

The remaining 70% of "white space" shown on p. 5 of the deck varies a lot in terms of what these stores are using. They typically are using some mix of the below options, frequently in a disordered way:

- CRM native to their DMS/ERP (most new Syonet clients come from this category).
- Managing leads in the OEM's portal only – a few OEMs (Fiat, GM) give their dealerships access to a portal in which they can get OEM-generated leads and, if they wish, also enter manually their own leads in the same tool.
- Generic lead management tools such as Hubspot, Pipedrive, MrSales, RunRunIt, among several others – very pulverized.
- Just spreadsheets on the cloud shared among the sales team, or even receiving leads one by one by email from their marketing agencies.

All of the options mentioned above lack key features present in the Syonet CRM: post-sales, repair shop and car parts store modules, automation of CS and customer lifecycle processes, integrations to car marketplaces and dealership websites, and all of them also require stores to enter leads manually in some way.

10) What is the logo churn over the last 3 years and main reasons why customers are leaving overall?

The gross logo churn rate has been an avg. 14% p.a. (c. 1% a month or so) for the past 3 years. The main reason for churn by far is clients that go out of business, mentioned by 38% of ex-clients. This is a reality of the dealership/retail segment, given these are typically smaller businesses with very low margins. So, if we exclude these 38% that churn because they go out of business, "normalized" gross logo churn would be c. 9% a year, comparable to top tier enterprise SaaS companies such as Salesforce, which sell for much larger/more solid clients.

Also, if we look at total net revenue churn, it is negative – net revenue retention is super high at an avg. 121% a year (and as high as 146% in 2021), in line with top tier SaaS. In other words, the clients who are cancelling are typically smaller, while the ones who stay are increasing their expenditure by a lot – hiring new modules, bringing the solution to more of their stores etc. – which speaks highly for the product/company quality and more than compensates for the ones leaving.

11) How to explain logo churn at c. 14% p.a. with a supposedly high NPS of 9.16 overall?

The logo churn rate coupled with a very high NPS can be understood taking into account that (i) most clients cancel because they went out of business, not because they were dissatisfied (see previous questions) and (ii) although 79% of clients are "Promoters" (NPS 9 or 10), you still also have 18% neutral (NPS 7 or 8) and 3% detractors (NPS < 7), a minority, but which still explains a small portion of clients prone to cancelling, besides the ones that go out of business. More color on why these other customers churn can be found on the next question.

Regarding NPS measurement itself, they seem to be doing it the right way – they use the Syonet CRM themselves, which sends out automatic NPS surveys to all clients every 3 months, you can check the NPS questions being made on p. 12 of the report.

12) Churn reasons: Can we have a better understanding of the other churn reasons mentioned on p. 12, i.e., more color on churns for other products, price issues, product features etc.?

Although the specific reason reported by the clients vary as shown on p. 12 of the deck, from deep-down discussions with sellers it became clear that all these reasons are somewhat interconnected in truth, resulting mostly from lack of attention by Syonet's Customer Success team to be in touch with smaller clients and train them to use the system to its full extent etc.:

- Migrated to other CRM (18%): These clients either decide to use only the OEMs leads portal or to go to cheaper "leads management" tools mentioned on question 11. Many times, according to the company, it results from a recommendation from other dealership owner or salesperson mentioning features Syonet also has, but the client is unaware of, due to poor use / poor customer training;

- Stopped using CRM (13%): These are clients who decided to use only their DMS/ERP and decide not to use any other software tool. In this case, it mainly results from clients not using the CRM to its full extent due to poor management, lack of internal processes among the sales team and less tech-savvy store owners. Mainly in smaller groups or individual stores.

- Price too high (13%): The sellers believe these clients are actually giving price as an excuse but, in reality, churning for one of the other reasons. Syonet is relatively inexpensive for the average store (see dealership economics in question 5), costing only BRL 1k a month.

- Product Features (10%): This seems to be, again, a case of failure by the Implementation and by the Customer Success teams to train the customer properly, be in touch from time to time and educate on the use of the platform. The system also has several modules clients can hire on top of the base solution for other stuff such as workshop management etc., so many clients that buy only the core solution might be unaware. As shown on p. 6 of the deck, Syonet is in fact the most complete solution from a product point of view.

- Others (8%): Less frequently reported reasons such as dissatisfaction with support received, change of DMS to a custom-made solution, new management etc.

13) How the churn splits between different client categories (i.e. franchised/independent, client sizes)?

The main split in churn rates is found when splitting as per client sizes, regardless of independent or franchised, or regional categories; The gross churn is heavily skewed towards smaller clients and individual stores – while the average Syonet client has c. 7 stores, churned clients are at only 2 stores avg. and at a median of just 1 store. These are also lower ticket clients, who typically have fewer modules and an expense of less than 1k/month.

14) Does the digital marketing product compete with generic e-commerce solutions such as Shopify etc.?

No, Shopify and similar e-commerce platforms and website builders are not present in the dealership segment (not in Brazil and also not in the US, according to river guides), mainly because they lack local car marketplace integrations which are key for the segment. The digital marketing product mainly competes with digital marketing agencies, when outsourced by the client, basically doing it manually and accessing the different auto portals etc. for the client, then sending leads to salespeople, and a few other local niche-specific tools such as Autoforce (https://site.autoforce.com/) and Alpes One (https://alpes.one/).

15) What is the degree to which OEMs can mandate the use of a certain software to their dealerships? Can they force dealerships to use a CRM of their choosing?

OEMs do not have the power to mandate dealerships to use certain software, but they do "homologate" certain ones – i.e., allow direct integrations between these systems and their own internal systems, and recommend them for use across their dealership networks.

When it comes to DMS/ERPs, all OEMs have homologated only between 1-3 options – among Linx, NBS or Dealernet – which are 95% of the market. These systems are much more interconnected to the OEM than a CRM, for accounting, inventory etc., and thus OEMs are much stricter in their requirements for homologation. It is very common that a group will have 2 or 3 different DMS across stores of different brands, and thus use Syonet to integrate leads from all of them for instance.

On the CRMs side, however, homologation is not a requirement, because these systems do not need as deep integrations with OEMs as the DMS do. The only data coming from OEMs are the leads distributed to a store, which typically have SLAs determining how long the store can take to answer the lead once it arrives. These OEM leads average only c. 10% of a stores' leads and are typically much lower in quality, but nonetheless must be worked. Almost all big OEMs homologate Syonet for direct access to their database to bring in these leads, but even without homologation these can be easily obtained. For instance, FCA currently does not homologate CRMs in Brazil because they run a heavily customized version of Salesforce on the OEM side and are lacking the technical capability/investment to allow other systems to access it directly, so they require stores to login manually into their leads portal to get their leads. Even so, Syonet brings in those leads with robots that log in the portal and manages the leads into Syonet automatically, and even without homologation Syonet still is present in 44% of Fiat stores in the country.

It is important also to note other reasons why dealerships avoid using OEM portals (when they exist) to manage their own leads: (i) it will give only that OEMs' leads, when most groups are multi-brand, (ii) as a consequence of i, lacks an overall "group" view of all stores and leads, (iii) they lack automation and important post-sales features and other modules, (iv) dealership groups strongly dislike sharing their own generated leads with OEMs, fearing these leads might be redistributed to other dealerships in the future and (v) with the recent Brazilian data protection and privacy law ("LGPD"), they are not even allowed to share clients personal information with other companies without express consent.

16) Company growth history: If they have been around since 2003, why did it take 15 years to get to BRL 10M revenues and then only 3 years to triple to 30M+?

They started in 2003 basically as a software house making on-demand, customized software for a few of the biggest dealership groups then in the country. As a services-based and non-productized solution, they had a slow start with that business model and during many years it was a battle for them with mostly just a few customers.

Fast forward a few years, they "productized" their platform and stopped doing customized software to focus only on their own product dev, but that first version was still based on a traditional on-premises software model which needed local installations and lengthy implementation projects, so they continued to grow slowly given that. They also had to bootstrap the company for all that period since there was no VCs in Brazil back then (in fact, the VC scene here only really started in the 2010s with a few firms entering the country). So indeed, it was only from 2015 on that they transitioned the product to a full SaaS version and started rolling that out to customers, and then their growth accelerated to the fast rates we see today thanks to much more scalability, single version for all clients and simplified implementation.