Conference Call Transcript
Infracommerce (IFCM3)
4Q22 Results
March 17, 2023

Marcelo Korber:

Good morning, everyone. Thank you for joining us to the 4Q22 earnings conference call. I am Marcelo Korber, IR Director at Infracommerce.

The results we announced yesterday, the audio of this call and the slides were referenced and will be available on our website.

Together with me on this call, we have our CEO and founder, Kai Schoppen, and our CFO, Fabio Bortolotti.

After our presentation, we will be available for the Q&A session. Should you have any question, please click on the 'raise your hand' button and you will enter the queue. You can also send your questions via chat.

Before I turn the floor over to Kai, I would like to warn you about our forward-looking statements. Any facts discussed today that are not historical facts, any matters that regard the Company's future plans, objectives and expected performance constitute forward looking statements based on a range of assumptions that the Company believes are reasonable, but are subject to uncertainties and risks that are discussed in detail in our CVM filings. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results of the Company and may lead results to differ materially from those expressed in such forward-looking statements.

Also, during the course of the call, we will discuss non-IFRS performance measures, which should not be taken in isolation. For consolidation of non-IFRS measures, refer to the tables at the end of our earnings release.

Now I turn the floor over to Kai, who will give you the highlights of the quarter.

Kai Schoppen:

Thank you, Marcelo. Good morning, everyone. First of all, I would like to thank our team of over 4000 Infras, who, with a lot of passion in our way of doing things, are helping us to create this disruptive business model, which is digitizing the supply chain.

The year of 2022 was really important for Infracommerce. Our client base continues to expand, and we are very happy with the number of new clients joining that base. But after many years of aggressive growth, in the end of 2022, we entered a new cycle, focused on profitability and cash flow generation.

Throughout the year, we advanced strongly in integrating the acquired companies, and in the consequent synergy gains coming from those movements. That boosted our advances of our profitability indicators throughout the year of 2023.

In addition to that, in a very hard moment in the market, we were able to significantly optimize our capital structure in 2022. We captured R$400 million coming from private capital, and we had important negotiations extending the timeline for paying our bank debts, and also installments related to our M&A. Our net debt over EBITDA at the end of the year was 1.2x.

As you can see on slide number five, we had a solid year, overcoming our EBITDA guidance and exceeding the barrier of R$100 million. At the same time, we delivered great revenue growth. And an important number to consider is our organic growth achieved in 2022. After isolating M&As' contribution, we achieved 24.5% growth, 15x above the e-commerce growth in the year, which was at 1.6%.

Our GMV achieved our guidance being very close to R$13 million as expected, and our take rate continues to grow compared to 2021. Our fintech is advancing well with a TPV growth of 260%, achieving R$3.6 million in 2022. with our synergies agenda and the PMI project advancing, We are on our way to deliver our EBITDA minus CAPEX at a positive target in 2023.

Now moving on to slide six, you can see some details of our growth by business unit, with the B2C growing over 150% a year, B2B advancing 52%, with now most fully organic growth, and our LatAm businesses growing by 68%, reflecting the interest of major brands and multinational companies in expanding their relationship with us going beyond Brazil.

Moving on to slide number seven, you can see some highlights of our Latin American operations. It's important to mention that we have recently started the last stage to consolidate the region with the signing of acquiring Ecomsur, a full commerce player from Chile that has operations throughout the whole region, with a strong presence in Mexico. And behind Brazil, Mexico is the second largest e-commerce market in the region, with a growth rate that even exceeds that of Brazil.

It's important to mention that, by joining our forces with Ecomsur, we will become the leader in our business model in the eight countries where we operate in the region.

Now I turn the floor over to Fabio, who is going to give you the financial highlights.

Fabio Bortolotti:

Thank you, Kai. Good morning, everyone. Let's move on to slide number nine, where you can see our main financial indicators. We had yet another quarter with GMV and that revenue growth, up 54% and 58% respectively in 4Q22. Different from the other quarters of the year, this quarter has some effects of the signing with Synapcom that happened in November, 2021.

Even with a challenging scenario in e-commerce, we have addressed the growing need of companies in expanding their share with their direct-to-consumer over total revenue. But as we said last year, we have been focusing on profitability and generating bottom line. And 4Q shows that this strategy has been delivering results, because we had an EBITDA margin of 16.4%, a 6 p.p. growth compared to the same quarter of 2021.

Now on slide ten, you can see the same indicators for the full year of 2022. As Kai mentioned, our organic growth closed the year 15x higher than the rest of the market, according to Nielsen. And even if we focused on profitability rather than growth, we had a great GMV growth, and just a small revenue variation.

But since our focus is on profitability, our adjusted EBITDA was above that range. And as a consequence, our final EBITDA margin of 11.5% covered the guidance, which was from 8% to 10%. And one of the main levers is the synergies coming from our M&A integration that can still grow in 2023, in addition to the decrease in our SG&A, as we will see in the next slide.

So on slide 11, you can see the dilution of our SG&A. As all of you know, in 2020 and 2021, we had years that were marked for investments in our governance structure for the IPO and for the integration of the M&A, because we were preparing to go from R$236 million in revenue in 2022 to a revenue of R$890 million now. So a fourfold growth.

Thus, we believe that 2022 was a turning point year. SG&A over net revenue decreased by 12 p.p., which shows our commitment to diluting fixed costs and improve our economies of scale.

Now, on slide 12, you can see our net profit breakdown. Our net profit, because of M&As, is suffering non-recurring effects, especially non-cash effects, especially due to the M&As, as you can see in the chart.

So we isolated the effects to understand the net revenue. In 2022, we had an adjusted net loss of R$146 million, still impacted by the high interest rates in the market and increase in the depreciation of the investments that we made in 2020 and 2021.

Now on slide 13, you can see more details about those investments. Just like in SG&A, 2022 also changed our focus on preserving cash and concluding the main stages of the integration program, as you can see on the quarterly evolution of 2022 on the chart on the right-hand side.

Technology and infrastructure. We made investments in 2022 and that was impacted by the costs required by the acquisition of the companies and systems’ integration and adaptation of our de DCs infrastructure to absorb the DCs that were closed throughout 2022. So we decided to include in the guidance of 2023 our CAPEX, as we will mention later on.

Now moving on to slide 14, you can see our cash position at the end of the year and our net debt position. In 2022, we closed with a cash position of R$293 million, a growth compared to the same period of the previous year. And in 4Q, we had the injection of the other amounts that were raised in 3Q.

Net debt on the quarter was R$219 million. Not only about cash management, we had other important landmarks in our indebtedness management. We had two lines that would have to be amortized in a shorter period of time; we had the capital raise that happened in September; and more recently, we also addressed the capital raise needed for the year, in spite of this challenging macro banking scenario, and that was acquired at attractive rates.

Now let's talk about the perspectives for 2023, a year that has already started. On slide 16, you can see our PMI overview, with synergies of the acquired companies. In 2022, we completed the integration of the top management, harmonization of internal processes, and we renegotiated with suppliers, as you saw in the results of the previous quarters.

But in 2023, we intend to complete a very important stage, which is systems integration, which can greatly reduce expenses. In 2023 alone, we intend to turn down 60 systems and tools that will save in teams, support, licenses and maintenance, migrating all of those systems to those that we chose to focus on.

Now on slide 17, as we officially announced to the market, we want to confirm the guidance for 2023 for our adjusted EBITDA and CAPEX, which sums up the strategic focus of our Company of expanding margins and reducing CAPEX.

We expect an EBITDA of R$150 million to R$170 million and a CAPEX from R$120 million to R$140 million. So we can expect a turnaround of our adjusted EBITDA minus CAPEX, inverting that negative trend that we saw in the last two years.

Now I turn the floor back over to Kai for the final remarks.

Kai Schoppen:

Thank you, Fabio. Looking at the numbers of slide 19. I am just so proud. We finished a cycle of aggressive growth, going from R$100 million of revenue in 2018 to close to R$900 million in 2022, achieving R$13 billion in GMV.

Our team has more than 4000 of the best experts in digital sales in eight countries of Latin America. We have conquered our place alongside the main technology companies in Latin America, and we did all that with a growing EBITDA and consistent margin gains.

Our next cycle, which has started in 2022, is now completely focused on profitability gains, cash flow generation and positive net profit. We feel confident that just like we delivered more than expected during our growth phase, we will continue to deliver during this phase that focused completely on profitability.

Now I turn the floor over to Marcelo, who will moderate our Q&A session.

Cristian Faria, Itaú BBA:

Good morning, everyone. Congratulations on your results, and thank you for this presentation and for taking my question. I have two questions and a comment. We saw the churn going to levels that are very close to zero. So even in a challenging year, in which e-commerce was under pressure, that happened. So I want to understand what you see ahead of you when it comes to churn, because we believe it is a very low level. Is it possible to keep churn at that level?

And the second question, I know that you have talked about some clients that haven't gone through a ramp up of operations yet. So what is the current status of the ramp up for those companies, and how will these companies contribute to the Company's growth in 2023? Thank you.

Kai Schoppen:

Great, Cristian. Excellent questions. About churn, we had an all-time record churn rate in 2022. So believing we will keep that all-time record in 2023 could be a bit bold. Churn was close to zero indeed, as you said, and as the market knows, we are phasing out Nike operations that are being absorbed by the Centauro group.

So at the end of the day, I think we will see a slightly higher churn then in 2022. But our business model has historically had low levels of churn, and I do not see that changing. And why is that? Because the login of an e-commerce platform is already high, let alone in our business model that we offer fintech and platform in addition to logistics, BI, data lake and many other solutions, IP, order management solutions, many sticky solutions. And all of that completely interconnected. That's why we have always had a very low churn.

About the ramp up, yes, we have significant projects, especially in B2B, and they are in an initial rollout phase. Two major players that have from 60 to 80 distributors working with us in this B2B marketplace, with 5 to 15 distributors. So in 2023, for these projects of B2B, we expect to achieve a volume of 80% of those distributors, training them, plugging them in, and then accelerating exponentially these two B2B projects.

We also closed many customers in the 2H22, so we have almost like an implementation bottleneck in 1Q. You see the wave of customers that we acquired in the end of 2022 coming in now in the beginning of 2023.

So, excluding that churn from Nike and maybe one or another customer, we are expecting great organic growth due to the wave of sales we had last year and that customer base that continues to expand.

Cristian Faria:

Great. Thank you very much.

Lucca Brendim, Bank of America:

Congratulations on your results. I have two questions here on my side. First, I would like to know whether you can give us some more light into your guidance for 2023. Can you break this down by Segment, B2B, B2C and LatAm? Do you have expectations to achieve growth more in one segment or another, or an even growth? And what do you expect in terms of take rate and GMV growth for 2023?

And a second question, can you give us an update about the beginning of the year in relation to sales and new clients, and also expansion with existing clients? Thank you very much.

Fabio Bortolotti:

Let's start by talking about the 2023 guidance. In the segments we report, organically speaking, B2B is the segment that grows the most. This is a market that still has a low penetration, with an amazing growth potential, and we are focusing on that sector.

In Latin America as well, even before the acquisition, we had been growing a lot, and we talked about Nike, whose operations in Argentina are going to start now. So that's a game changer.

In B2C, we still see some carryover from 2022. So it's expected to grow less than the two other business units.

Our take rate is quite stable by customer, and the average take rate depends on the mix of all those channels. So we expect the take rate, if the B2B segment actually grows more than some B2C in Brazil, that will lead the take rate to go down. But that does not mean anything, because our margins are much better in B2B. So we are more focused on growing our top line and gross margins.

However, Latin America also has a very high take rate. With the acquisition of Ecomsur and their inclusion in the numbers, that will push our take rate up. So you should look at the take rate by unit, because sometimes the take rate is going down and that's actually good news. And the opposite also applies, because the B2B margin is much higher.

About new clients, we continue with a very fruitful sales engine. Every quarter you see that the number of new clients is quite consistent, but 1Q is always weaker, and then clients come throughout the year.

So in 1Q, we expect to have a ramp up of the clients acquired last year. So we have many go-lives planned and the new customers are expected to come in the 2H23. But there is always a great flow that is always above churn.

Lucca Brendim:

Great. Thank you very much. That was very clear.

Thomas, Compass (via webcast):

What level of one-offs related to Ecomsur do we have to expect for 1Q?

Fabio Bortolotti:

Thank you, Thomas, for that question. Ecomsur involves many countries, and we do not have a financial adviser. We work with local law firms and local audit firms, so we had expenses with them and that would be the only one-off effect. That is expected between the 1Q and 2Q, because the closing is expected for April, and many of these costs only come after the closing. But it's not a significant amount. It's just about the advisory fees.

And then, we are going to start a PMI agenda. In the case of Ecomsur, that's a merger with New Retail, our subsidiary with the assets for Latin America. And in this case, the PMI will be even more intense than that we had in Brazil to focus on the synergies we talked about in our publications. And then we can have some one-off costs, but nothing very significant. Because at the end of the day, it's just about investment in systems, no DC consolidation, so a lower investment than we had to make for Brazil's integrations, but that would be more than offset by the synergies that we expect to capture throughout the 2H23, and most of it for 2024.

Marcelo Korber:

There are no further questions. So thank you very much for joining us, and we expect to see you in our next earnings conference call. Should you need any assistance, get in touch with our IR team. Thank you very much.