



**International Conference Call**  
**Linx**  
**Second Quarter 2020 Earnings Results**  
**August 12<sup>th</sup>, 2020**

**Operator:** Good morning ladies and gentlemen and thank you for waiting. Welcome to Linx conference call for the presentation of the results of the second quarter of 2020.

Here with us today are Alberto Menache, CEO of Linx; Ramatis a Rodrigues, CFO; and Carolina Pontes, investor relations officer. Also here with us are Linx VPs, Gilsinei Hansen, of Linx Core; Jean Klaumann, Linx Digital; Denis Piovezan, Linx Pay; and Flavio Mambreu, from Marketing and People.

We would like to inform you that this event is being recorded and simultaneously translated into English. All participants will be in listen-only mode during the company's presentation and after that we will initiate the Q&A session when further instructions will be provided.

Should any participant need assistance during this call, please press \*0 to reach the operator. This event is also being broadcast live via webcast and may be accessed through the website [ir.linx.com.br](http://ir.linx.com.br) where the presentation is also available. The replay of this event will be available right after it is concluded.

Before proceeding, I would like to clarify that any forward-looking statements about future events, operating or financial results are based on the beliefs and assumptions of Linx management and also on information currently available to the company.

Forward-looking statements are no guarantee of performance as they involve risks and uncertainties and assumptions since they refer to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the floor over to Alberto Menache to start the presentation.

You may proceed Sir.

**Mr. Alberto Menache:** Good morning and thank you very much for your interest and trust in Linx.

As you know, this was certainly the most intense social distancing period in Brazil so far. In an attempted to halt the spread of COVID-19, several nonessential commercial businesses were shut down and this had an impact on



a large portion of our customer base. But we turned this into an opportunity. With technologies provided through our end-to-end platform, we were able to offer solutions that allowed retailers to proceed with their activities mainly through Linx Digital offerings, but also through the restaurant apps, and all this becomes apparent when we look at the strong acceleration of the digital transformation process of the last months.

We strengthened our partnerships with the most relevant marketplaces in the country; we launched Linx Commerce for pharmacies opening the possibility for integration with B2W marketplace; also, the Neemo app experienced significant demand growth which is the App Delivery; and we were able to double the number of customers of the Payment Link in June versus May.

Also, this quarter we invested in the functional evolution of the e-commerce platform with Omni capabilities to extend our services to Brazilian midsize retailers and we are currently running a pilot project in the fashion segment.

And of course, as we always say in our calls and other conversations with you, all of that is only possible because we have innovation as part of our DNA, and to support all that we are deeply committed to investing in R&D.

In the second quarter we were able to post a significant growth due to our software as a service business model and also the unique profile of our customer base. As a result, Linx had no significant impacts in churn during the period. However, there was an impact on provisions for loan losses with the postponement of payment terms – something that Ramatis will elaborate further.

Despite a challenging scenario that we are currently experiencing, we posted solid results in the quarter with recurring revenues growing 17% year on year and 340 bps of adjusted EBITDA margin reaching 28.2% in the second quarter 2020.

Therefore, I want to assure you that we continue to operate business as usual, caring for our people, our customers and suppliers and focusing on the long-term sustainability of our business. We also continue to fulfill our social role, and in addition to the several ESG initiatives that are being detailed in our Annual Sustainability Report of last June, Linx donated BRL 1 million to the *Salvando Vidas* BNDES Program for the purchase of individual protection equipment to the health care professionals working in the front line to fight the pandemic of the new Coronavirus.

And before given the floor to Ramatis, I would like to express a special thanks to the entire Linx team who had an outstanding performance and demonstrated total commitment during this challenging period.



As you can tell from the notices and releases, we maintain our absolute leading position in the POS and ERP market in Brazil with 45.6% market share in the retail segment and we stood out as the player with the highest growth in e-commerce solutions in 2019. We are also very honored with the acknowledgment from the Institutional Investor survey that placed Linx at the podium in several categories of the technology industry among companies in Latin America and in the general ranking, and therefore we ranked first among small caps.

So once again, my deepest thanks to all of our teams at Linx and our customers, analysts and investors and also our entire IR team who believed and trusted in our business. Thank you very much.

Now I will give the floor to Ramatis to talk about the results related to the second quarter of 2020.

Ramatis, you may proceed.

**Mr. Ramatis Rodrigues:** Thank you, Alberto, and good morning everyone.

Still on the current situation, I would like to emphasize that the Crisis Committee set up in mid-March continues to operate and follow the developments of COVID-19 implications. In addition to all the measures to protect our employees and internal awareness campaigns, Linx adopted several initiatives to preserve its Cash, which had a positive impact on the quarterly evolution of costs and expenses and in the EBITDA margin expansion, that reached its highest level since the fourth quarter of 2014.

As Alberto said, we negotiated with our customers related to payment of invoices on a case-by-case basis resulting in a total postponement of payments of BRL 54 million until June, of which only 13% are still in the renegotiation phase and 87% are paying the negotiated amounts on time. As a result, our provision for loan losses was BRL 5 million in the quarter, accounting for 2.4% of net revenue, 80 basis points higher than the previous quarter.

It's also worth mentioning that Linx has a robust Net Cash balance. In 2Q20 we posted BRL 213 million and excluding leasing from the gross debt due to IFRS 16 and the net earn out of accounts payable for acquisitions, the adjusted net cash would be BRL 400 million in the quarter.

Now moving to slide 3 of the presentation, I would like to highlight the 11% growth of Linx Core Recurring Revenue and the main drivers of the quarter. The Delivery App, which is Neemo's solution, doubled its revenue in the year. Also reinforcing Linx cross-selling strategy, at the end of June we had 334 franchisees that already responded for 30% of all new activations in the second quarter of 20. Another highlight is the Millennium revenue that grew 75% when compared to 2Q19 with 43% more projects vis-à-vis the previous quarter.



Hiper's performance was also relevant with a total recurring revenue growing 43% year on year. Furthermore, Linx Pay Total Recurring Revenue grew 10% year on year and TEF accounts for 55% of the total revenue of Linx Pay.

Linx Payment Link, on the other hand, saw its customer base double in size between May and June 2020 and we already have 2,500 customers using our solution that was recently launched. And finally, Linx QR Code increased its customer base by twofold when compared to December 2020.

Now moving to slide 4, here we have the main highlights of Linx Digital that posted a 29% increase in Total Recurring Revenue when compared to Q219. In this landscape of expediting the digital transformation process, the Total Recurring Revenue of Linx Commerce doubled this year with a historical record of GMV in June 2020.

Linx Impulse Total Recurring Revenue was up almost 30% in the year accounting for 63% of Linx Digital total revenue. What also grew was the number of retailers posting their inventories in marketplaces in partnership with Linx and we initiated the certification of branches to sell Linx Digital solutions; something that we intend to enhance in the following months.

Now I will give the floor to Carol, Linx IR Manager, to continue with the presentation.

**Mrs. Carolina Pontes:** Thank you, Ramatis, and good morning to you all.

Moving to slide 5, we show that the Recurring Revenue totaled BRL 208 million accounting for 84% of the gross revenue, growing 17% year on year and up 6% vis-à-vis first quarter of 2020.

In the second quarter of 20, Linx Core accounted for 72.5% of Total Recurring Revenue, whereas Linx Digital accounted for 14.3% and Linx Pay 13.1. In the previous quarter, Linx Digital accounted for 11.1% and Linx Pay 13.9%. This variation is attributed to a higher demand for new digital solutions due to the temporary shutdown of stores in the quarter caused by the COVID-19 pandemic.

On slide 6 we show that Net Revenue was 11% higher vis-à-vis second quarter of 19 and 2% higher quarter on quarter.

Moving to slide 7, we highlight that Adjusted EBITDA was BRL 60 million in the quarter, up 26% when compared to the second quarter of 19 with an Adjusted EBITDA margin of 28.2% in the quarter, 340 bps higher when compared to the second quarter of 19.



And finally, on slide 8 we present the nonrecurring expenses in the quarter, that came up to BRL 11 million. This amount consists mainly of initiatives related to headcount adjustments; to Linx stock options plan; to the impact on revenue from prepayment of receivables allocated in the financial result; and the net earnout reversal involving Napse.

Thank you for your attention and now we move to our Q&A session.

### **Question-and-Answer Session**

**Operator:** Ladies and gentlemen, we will now initiate the Q&A session. For questions, please, press \*1. Once your question is answered, you can leave the queue by pressing \*2.

Our first question comes from Daniel Federle, from Credit Suisse.

**Mr. Daniel Federle:** Good morning everyone and thank you for taking my question.

And first of all, congratulations for the results of the quarter. And my first question relates to that, because it seems to me that Linx planted many seeds and invested in many areas that are very promising, like Omnichannel, Linx Pay and digital banking. So I just want to understand: what were the risks that existed that led the company to make these investments? This is my first question.

And the second question relates to sale synergies of payments and software to large retailers. What are indeed the synergies and what kind of advantages that large retailers have once they find the same solutions with the same vendor rather than choosing the best prices in different areas of the market?

So, if you could elaborate a little on why Linx was not able to sell this integrated solution to large and midsized retailers.

**Mr. Alberto Menache:** Hi good morning, this is Alberto. Thank you for your question.

Well, first of all, whenever we talk about risks, I don't think it is so much a matter of a risk, but I think it has to do with scale. Stone is a company that stems from the payment industry and then it evolved into other areas, but they have a much higher scale when compared to ours. What would take us longer to do, Stone has a lot of things already in place, so they have scale.

As for the second part of your question, I think we were very successful in terms of our customer base and portfolio. The only thing is that we didn't want to burn cash because apparently if you look at the results from the acquirers, there are some acquirers losing money selling with a MDR that is negative. So selling to



large customers wouldn't be a problem but making intelligent and profitable sales is what matters to us.

So we were looking at our portfolio, our Linx Pay Hub results are quite solid, we've been growing in the past few months, especially with digitalization, our margins, we have a native integration between Linx Pay and Neemo, which is the App Delivery, and with that we were able to make important advances in terms of penetration. But this synergy can also lead us to another level. And on the other hand, Stone also started to invest in software, but as I said, for us in terms of payments the same thing goes for them in terms of software.

I see many synergies; they have a large distribution and of lot of capillarity and we do as well. So at the end of the day, I can say that there is a large distribution synergy, I mean, this is only an example, that's not only it. But just to add, the level of governance of the companies is quite high because they are listed in the New York Exchange.

**Mr. Daniel Federle:** Thank you. They give very much, Alberto.

**Operator:** Our next question in English, from Mr. Samad Samana, from Jefferies.

**Mr. Samad Samana:** Hi, good morning and thanks for taking my questions. Maybe first one on growth that you saw with Neemo and some of the more recent acquisitions.

How durable do you think those high growth rates are versus how much of it is short term because of the crisis and how that's changed consumer behavior? And then I have one follow-up.

**Mr. Alberto Menache:** Good morning, Samad, thank you for your question. I think that growth is sustainable in the long run. The penetration of the Delivery App was slow, unlike marketplaces which has a much higher penetration. But the restaurants want to have an alternative to marketplace, so that's why we launched the Delivery App, therefore I see a great potential to grow that segment in a very robust way for a long time.

**Mr. Samad Samana:** Helpful, and then maybe if I could ask a follow-up question on the agreement with Stone. Did the company consider a merger or an acquisition by anybody else? Was it shopped? I guess I'd like to better understand maybe how it ultimately came together with Stone specifically versus some of the other companies that could have been potential prospects as well, and if there is a go-shop period for some amount of time.

**Mr. Alberto Menache:** Right now, we have an exclusivity agreement with Stone, which means that we are not going to entertain any other negotiations with other companies. Well, having said that, all of the documentation have



been published at the Brazilian CVM and in our Investor Relations website and the evolution of this process until the general shareholders meeting is all published in these locations, so the only possibility that there is this what has been posted in the documents.

But throughout the last, let's say, 15 years, Linx had conversations with other companies about that possibility and maybe I could say that this has happened quite frequently, but we then believe that Stone was the best company in terms of their culture, in terms of synergies, etc. and etc., there were many things in common and they presented a very good proposal to our shareholders as well and therefore we decided to go ahead with them and now we see the possibility of very soon that we will be together.

**Sr. Samad Samana:** Great, thank you for taking my questions and congratulations on the strong quarter and the exciting news.

**Mr. Alberto Menache:** Thank you very much.

**Operator:** Our next question, also in English, comes from Cesar Medina, from Morgan Stanley.

**Mr. Cesar Medina:** Hi, congratulations on the quarter. I have 2 questions. One regarding the TEF solution. If you can give us an indication in terms of where the volumes are today, and perhaps, you know, the breakdown of how the acquirers processing those transactions? And then the second question is related to the timeline of the proposed transaction. You know, when do you expect the next steps to occur and then the final approval for the general shareholders' meeting? Thank you.

**Mr. Alberto Menache:** Thank you for your question, Cesar. In relation to the timing of the transaction, it depends on the Brazilian agency CADE, therefore this will probably take a few months. I cannot really tell you what the final general shareholders' assembly date would be, but we still have some waiting time ahead of us.

But in terms of your second question, I will give the floor to Denis.

**Mr. Denis Piovezan:** Good morning, good morning everyone and thank you so much for your question. TEF's penetration remains very robust and mainly in the first quarter of the year, and on the second quarter because of the pandemic it slowed down a bit, but now we see a very strong rebound, it is now about 40% and it continues to grow and to grow its recurring revenue and penetration, and I would say the same for the other solutions up Linx Pay.

**Mr. Cesar Medina:** Thank you, but can you give more color in terms of the TPV and your managing on that solution and who is processing of that? Like, which acquirers and what percentage of that?



**Mr. Alberto Menache:** It seems like we don't have an update on that figure, Cesar.

**Mr. Cesar Medina:** Okay, thank you very much.

**Mr. Alberto Menache:** Thank you.

**Operator:** Next question from Fred Mendes, from Bradesco BBI.

**Mr. Fred Mendes:** Good morning and thank you for taking my question. I have 2 questions. I think they are more strategic, I think Alberto already talked about some of them, but how do you see the integration of these 2 cultures? Although I think it may be too soon, but what kind of challenges you anticipate in terms of promoting that integration?

And the second question is probably a bit more strategic. In terms of Linx Digital, how do you see Linx Digital and this new partnership? So whether you expect some kind of changes in your strategy or whether you will continue with business as usual?

**Mr. Alberto Menache:** Fred, good morning, thank you for your question. About the integration, integration is always a challenge, but Linx has developed this integration capacity because we have acquired more than 30 companies throughout our 11-year of history. Therefore, Linx culture involves embracing several cultures and also not only we embrace, but we accommodate being embraced. That's why I don't see any difficulties.

And once again, I reiterate that it's always a challenge when we have to integrate, but together with our HR department and together with Stone, Stone is also a company that has acquired several other companies, it's a very dynamic and young company and therefore I'm very optimistic about the integration.

Now, in relation to the integration with Linx Digital, we see a lot of opportunities. Our digital segment is posting a significant growth and our penetration, as I said before, is very important through our Delivery App, most of our new customers come from the Delivery App. But in terms of Linx Commerce and Payment Link, penetration is still low. And why do I say that? Because our Gateway is a very recent product, so it still needs to be more mature in order to grow penetration.

Therefore, I see a lot of opportunities looking forward, and now I will ask Jean to tell us more about it.

**Mr. Jean Klaumann:** Good morning, Fred. I think that the market change and the motivation for all of those that are entering, this is the new e-commerce platform that is always motivating us to create more democratic paths to make



things happen, like it did happen with the Pharma example, and we want to have another end-to-end solution and this is what we already did for Linx Core and Linx Digital, and now we are just reinforcing that. I know that our solutions will be even more robust, connections will be easier, and this also brings about important cross-selling opportunities.

I don't see any disruptive changes in the short run, but on the contrary, lots of good opportunities to capture synergies between our different distribution channels.

**Mr. Fred Mendes:** Perfect, Jean and Alberto. Thank you very much. And if this is our last call, I mean, it's been a pleasure to work with you and be with you in the last few years. Thank you.

**Mr. Jean Klaumann:** Thank you, Fred.

**Mr. Alberto Menache:** So, I think that you will have some more work ahead of you.

**Mr. Fred Mendes:** That's what I hope for. Thank you.

**Mr. Alberto Menache:** Thank you. Thank you very much and thank you for cheering for us. We were just able to get the numbers that Cesar asked for, so let's go for it.

**Mr. Denis Piovezan:** In the last quarter, we had around BRL 20 billion with TEF with an outstanding leadership by Rede quite ahead of the second company, Cielo, and we are operating very close to GetNet. So Linx Pay about BRL 20 million, our position now is around BRL 100 million. I think that's it, Cesar.

**Operator:** So, if you have further questions, please, press \*1. Next question from Suzana Salaru, from Itaú.

**Ms. Suzana Salaru:** Good morning. Thank you for taking my question and congratulations for all this trajectory.

I have 2 questions. The first about Linx Pay. Linx Pay accounts for 13% of your recurring revenue. Out of this amount, how much is transactional and how much of that 13% is TEF?

And my second question is more related to e-commerce. Are you thinking about developing an e-commerce solution for each of the vertical or this will be a more generalized solution that could be deployed anywhere and, as such, would generate higher scale?

**Mr. Alberto Menache:** Suzana, thank you for your question. Our idea is to have unique platforms for each vertical. We have always believed in the



specialization in the core business, so fashion segment has its own needs, the pharmacy segment has its own peculiar needs, and so on and so forth. It's not the same thing to have... I mean, it's one thing to have different platforms for different segments, but that doesn't mean that the technology cannot be shared because in most cases it could. There are several common components to the technology and, as such, we have lots of synergies between the different platforms.

Now about the mix of the transactional revenue of TEF, I will give the floor to Denis because this quarter we already have the full consolidation of PinPag, so we already included PinPag in those figures.

So Denis, if you can help us shed some more light.

**Mr. Denis Piovezan:** Sure. Suzana, thank you for your question. What we have in terms of recurrent is about 55% and transactional 45%. So transactional is growing.

**Ms. Suzana Salaro:** So out of that 13% recurring revenue is like: almost half is transactional, and the other half is the rest?

**Mr. Denis Piovezan:** Yes.

**Ms. Suzana Salaru:** I just have a follow-up of another question from last night, maybe you can help me with that. We received a question from an investor related to the fact that you will receive a percentage in cash and the other percentage of the transaction will be paid off in shares from Stone.

But this is such a nice deal and well-accepted, so why don't you receive more stocks and less cash in terms of how the payment will be done?

**Mr. Alberto Menache:** Suzana, I cannot give you any further details about that at the moment because at the end of the day to pay a certain premium for LinX shares is a significant premium whenever we talk about the average price of the last 30 days. That was the deal we arrived at, but, I mean, I cannot give you any further details.

**Ms. Suzana Salaru:** Okay, that's fine. And again, once again congratulations for your trajectory because we had the opportunity to be with you from the very beginning, from day one.

**Mr. Alberto Menache:** Thank you, Suzana, thank you for your dedication in covering us.

**Operator:** Next question is from Maria Teresa Azevedo, from Santander.



**Ms. Maria Tereza Azevedo:** Hi, thank you for taking my question. Congratulations for your transaction. I am also very hopeful that everything will be approved.

I have 2 questions. The first is whether you can talk about your contract with Rede, whether there is any kind of penalty that will be incurred and how are you doing to make that transition from Rede to Stone so that you can capture synergies?

And my second question is about the OMS projects. How is the rollout of that and whether you added projects, or you reduced the number of projects? And how do you see the competitive environment for e-commerce solutions? Thank you and congratulations once again.

**Mr. Alberto Menache:** Thank you for your question, Maria Tereza. In terms of our contracts with Rede, unfortunately I cannot give you any details about that, but we do not want to have any disruption vis-à-vis Linx clients. And in terms of OMS, I will let Jean answer that part.

**Mr. Jean Klaumann:** Good morning, Maria Tereza, thank you for your question. The go-live of our first project should occur in Q4, we are finalizing the functionalities and we are working together with Linx Pay because we are also making available another concept that will include Omni and a whole network of franchisees, so it's a very democratic product, but at the same time it will serve franchisees right from the start.

In terms of the competitive environment, we are growing our sales volume, we've been growing the sales volume in these past months, we have about 50 new, we are adding 50 new customers per platform every month and the average ticket is growing also in terms of signing new contracts, and this shows not only the quality of sales, but through the sales volume that is growing that indicates that we are in the right track.

**Ms. Maria Tereza Azevedo:** Perfect, thank you very much both of you.

**Mr. Jean Klaumann:** You are welcome.

**Operator:** Once again, for questions, please press \*1. Our next question from Diego Aragão, from Goldman Sachs.

**Mr. Diego Aragão:** Good morning and thank you for taking my question. Could you please comment on total GMV of clients? And correct me if I am wrong, but Stone talked about BRL 300 billion of current GMV. Could you just elaborate a little about the performance of that, if we can compare to last year or the pre-pandemic volume, and what is the behavior now during the pandemic period? So this is my first question, thank you.



**Mr. Alberto Menache:** Good morning, Diego, thank you for your question. Those BRL 300 billion refer to everything that goes through our platform, meaning through our softwares, what is invoiced by customers through our softwares.

Volumes dropped substantially in the onset of the pandemic, but right now it's very close to what it was before the pandemic period with the exception of shopping malls because they are still facing some restrictions. But on the other hand, on the e-commerce side, the volume is much higher than it was in the past, but not so significant when we look at the total number of transactions that go through Linx payments.

**Mr. Diego Aragão:** Perfect. Can you also give me a breakdown of how much of that GMV occurred through physical stores and how much of that occurred online? That would just help me understand a little bit more about the mix of the volume.

**Mr. Alberto Menache:** The majority was through brick-and-mortar stores, the great majority was through physical stores, so we would have to get this entire volume and remove what Jean mentioned before and with that we will have the final result. And I do apologize because I don't have that number from the top of my head.

**Mr. Diego Aragão:** Perfect, that's not a problem. So once again, thank you so much for this amazing partnership throughout the years, and as Suzana said, we had the opportunity to follow your trajectory from day one. And once again, I have to congratulate you for this amazing track record, and we will see you soon in the future.

**Mr. Alberto Menache:** Diego, I have to thank you because, in fact, even when you were in another company, I know that you've been monitoring us diligently, so thank you so much for your support during all these years.

**Operator:** Next question from Ciro Neto, from SFA Investments.

**Mr. Ciro Neto:** Hi, good morning. I would like to talk a little bit about this recent deal between Linx and Stone. I am a founding partner of SFA Investments and a Linx's shareholder, and this deal shows that the strategic value of the company in addition to the growth potential of Linx.

So Stone would be the main software company in retail, it will have robust solutions to cater to their clients, it also will have access to an enormous list of clients and they will operate in a segment now that they have low penetration, so we have BRL 300 billion in addition to large volumes on TEF, they will be able to offer online solutions through their customers and so they are one of the leaders in the sector. This is a segment that has a huge growth potential, Linx has already invested a lot in the last few years, in addition to omnichannel



solutions, they have a large growth potential, they invested a lot in the last few years.

Therefore, we understand that, strategically speaking, this deal makes a lot of sense, it seems to be a great deal for Stone and it's a business that does not contemplate all of this growth potential and the strategic value that I just mentioned before. I just want to understand a little bit of the rationale of this valuation.

**Mr. Alberto Menache:** We are talking about a premium of approximately 40% on the average price of the last period, this is a pricing that is above the targeting for most analysts, if not all of them in the market. When we look at the earnings multiples and the EBITDA multiples, they are quite interesting, and throughout the years we talked to several companies, but they never came this close to making a good proposal to us.

And even though things are moving quite well on the payments side, our projections due to the pricing war that we had and looking at the profile of our customers – our customers in the vast majority are medium and large size –, so that price war is very strong in these 2 segments, and there is strong pressure from the banks in terms of selling integrated products like credit, acquiring, etc.

For all these reasons, we understood that it was a very good proposal and so that we should take it.

**Mr. Ciro Neto:** Okay, thank you.

**Mr. Alberto Menache:** Thank you for your question.

**Operator:** I would like to remind you that for questions just press \*1.

As there are no further questions, we now conclude the Q&A session. I would like to give the floor to Alberto for his final remarks.

**Mr. Alberto Menache:** I would like to thank you all very much because ever since we had our IPO you were very diligent in covering us and you dedicated a lot of your time to write your reports, so thank you so much and we'll see you soon. All the best to all of you.

**Operator:** Linx conference call is now concluded. Thank you very much for participating and have a very good afternoon.