



International Conference Call
Linx
First Quarter 2020 Earnings Results
June 9th, 2020

Operator: Good morning everyone and thank you for waiting. Welcome to Linx conference call to discuss the results of the first quarter 2020.

With us here today are Mr. Alberto Menache, Linx CEO, Ramatis Rodrigues, CFO, and Carolina Pontes, Investor Relations Officer of the company. This quarter, we also have here Linx Vice-President, Gilsinei Hansen, of Linx Core; Jean Klaumann, Linx Digital; Denis Piovezan, Linx Pay; and Flávio Mambreu, 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.

In case 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 Linx website at: ir.linx.com.br where the presentation is also available for download. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded.

Before proceeding, let me mention that forward-looking statements about future events, operating or financial results, operating and financial targets are based on beliefs and assumptions of Linx management and also based on information currently available to the company. Forward-looking statements are no guarantee of performance as they involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could cause results to differ materially from those expressed in such forward looking statements.

Now, I will turn the floor over to Mr. Alberto Menache to start the presentation. You may proceed, Sir.

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

I would like to start by saying a few words about the moment we are going through with the spread of the new coronavirus. As of March 2020, several Brazilian states have been adopting social distancing measures to flatten the contamination curve by COVID-19 in an attempt to prevent a possible collapse



of the public healthcare system. Most of these measures include the temporary shutdown of nonessential businesses.

With this backdrop, the seasonal effect already expected for the first months of the year due to the absence of commemorative dates was intensified at the end of March, posting a 50% drop in sales volume among retailers that use our platform; something that started to improve in this past week with the partial reopening of shopping malls stores.

In this context, the recurring revenue base business model demonstrated the resilience of Linx. Already in the second half of March, we experienced increase demand coming from Delivery Apps, e-commerce platforms, the integration of stores to marketplaces, payment links and also gateway offerings.

This move gained momentum and then in May the demand for the Delivery App was 4 times higher when compared to January 2020, which is the month prior to our acquisition of Neemo. The GMV of our e-commerce platform grew 145% in relation to May 2019 and we reached more than 6,000 stores registered to use the payment link.

Furthermore, we continue to invest in our team and in innovation to ensure the future growth for Linx, something that has put additional pressure on this quarter's profitability. However, we believe we will be able to recover profitability in the quarters ahead, also bearing in mind the initiatives put in place in the second half of March that will be further detailed by Ramatis.

It's also important to mention that we are aware of our role in society and we engaged in several strategic partnerships to fight COVID-19, such as the donation of R\$1 million to a project called *Salvando Vidas* (or Saving Lives) in conjunction with BNDES to raise funds for the purchase of the medical and hospital materials from Brazilian philanthropic organizations.

We continue to operate as usual and reaffirm our commitment to the long-term ensuring the safety of our team, customer and supplier services and as a consequence the performance of our business. We will continue to invest in innovation and also in valuing our teams to bring people and technology increasingly together through exciting shopping experiences around the world.

We believe that accelerating the digital transformation process of retailers regardless of their size is something relevant to Linx business.

Now I will give the floor to Ramatis, who will elaborate on the results of the first quarter 2020. Ramatis, please, proceed.

Mr. Ramatis Rodrigues: Thank you, Alberto. And good morning to you all.

Still on the topic of COVID-19, I would like to highlight that we introduced several measures to preserve Linx cash, such as the prepayment and the



reduction of cloud operating costs; lower pace of acquisitions; hiring freezes and promotions; trip cancellations; cost reduction with third parties; and negotiation of office rental agreements. We also engaged in negotiations with BNDES, Workers Unions representing our employees and we renegotiated terms with our suppliers.

Additional actions included the renegotiation and postponement of payment terms with customers, reassessment of the future output for each business unit and lower dividend payout in 2020. Linx has tried to negotiate invoice maturity on a case-by-case basis according to the relationship with the customers.

It is worth to mention that Linx has a robust net cash. In Q1 2020, we posted R\$310 million, and excluding leasing's gross debt stemming from IFRS16 and the net earnout from accounts payments from acquisitions, the adjusted net cash would be R\$505 million in the quarter.

Moving to slide 3, I would like to mention Linx's recent partnerships. We integrated Linx Omni OMS to the marketplace of Mercado Livre, allowing retailers to expand their sales channels by offering store pick-up and ship-from-store options. This partnership also contemplates micro and small retailers, our Hiper customers, offering them a major sales opportunity to our customer base more adversely affected by COVID-19.

We signed a partnership with the B2W to create a white-label e-commerce platform for Farma customers with more than 60,000 preregistered SKUs that should go live 3 days from the moment of hiring.

And finally, we strengthened the partnership with Rappi to integrate stores into the marketplace in view of the temporary shutdown in mid-March. It is also important to highlight that all Linx's partnerships are now available to the entire customer base and not only to those who contracted Linx Omni OMS.

Still on slide 3, we have the dividend payout of R\$20 million starting on May 20, as approved by the Annual Shareholders Meeting on April 30th.

Now, I'll give the floor to Carol, Linx IR Manager, to proceed with the presentation.

Ms. Carolina Pontes: Thank you, Ramatis.

Moving to slide 4, we show that subscription revenue totaled R\$196 million, accounting for 83% of gross revenue, up 16% vis-à-vis the first quarter 19 and in keeping with the subscription revenue of 4Q19.

In the 1Q20, Linx Core accounted for 75% of total subscription revenue, whereas Linx Pay reached 14% and Linx Digital 11%. In the previous quarter, Linx Digital accounted for 13% and Linx Pay 12. This change in mix is mainly



explained by the acquisition of PinPag in January 2020 allocated as part of Linx Pay.

On slide 5, we show that net revenue was up 18% when compared to Q1 19 and down 6% in relation to the fourth quarter 19.

Now moving to slide 6, adjusted EBITDA was R\$41 million in the quarter, down 11% in relation to the adjusted EBITDA of Q1 19 with an adjusted EBITDA margin of 19.6% in the quarter.

Slide 7, we show nonrecurring expenses in the quarter totaling R\$3.5 million. This amount contemplates: Impact of revenue with prepayment of receivables offered by Linx Pay; organizational restructuring carried out early in the year with the teams from Linx Core, Digital and Pay Hub; expenses related to that due diligence process of the acquired companies; and also consultancy expenses to adapted to SOX rules.

Thank you for your attention and now we proceed to the Q&A session.

Question-and-answer session

Operator: Ladies and gentlemen, we will now initiate the Q&A session. For questions, please press star 1. To remove yourself from the queue, please press star 2.

We would like to reaffirm that in addition to the CEO, CFO and IR Officer, all links VPs are also present in this presentation.

Our first question is from Fred Mendes, from Bradesco BBI.

Mr. Mendes: Good morning everyone and thank you for taking my questions. In fact, I have 2 questions. I think my first question refers to organic growth. I just wanted to get a better understanding about that 28 million impact related to M&A acquisitions in the past 2 months. And so, I would believe this is organic, about 3.5, but a good part of it also comes from consultancy services. When I look at recurring and organic would be a bit lower. So I would just like to understand that first point.

And the second point, you know, taking the advantage of the other participants that are also with us, what is, you know, the ratio of GMV? And Linx GMV grew year on year over 50%, but I think Linx Digital I think it has remained flat depending on your calculation.

I would just like to understand whether there was a major impact on the take rate just to explain this not monetization right at first or whether this dynamic should be a bit different and whether we are still missing a few more details. Thank you very much.



Mr. Menache: Good morning, this is Alberto speaking. First of all, subscription revenue growth, unlike what it happened in the past when our subscription revenue was only based on users, currently now we have our recurrent revenue base on volumetrics, and volumetrics also contemplates Digital, as you mentioned yourself, therefore, when we have our Black Friday at the end of the year, certainly volumes increase and, therefore, subscription revenue also increases.

We, as of now, already have more seasonality in our subscription or recurring revenue. As Linx Digital and Linx Hub begin to increase, seasonality should also increase.

Now I would like to give the floor to Jean to talk a little bit about Linx Digital and the dynamics of the business.

Mr. Jean Klaumann: Thank you, Alberto. Good morning, Fred, and good morning all of you joining us today.

As Alberto said, in the first quarter usually due to Black Friday and the Christmas holidays in fact we have a significant reduction in subscription revenue at Digital, but in terms of our variable revenue because of integration with marketplace and with the volumetrics of our search engine, you know, retargeting and referrals, the media revenue also has an important seasonality that is posted on Q4.

And our GMV on Q1 was also hurt in the first half of March because GMV in general suffered from online sales because people were in quarantine and people were almost like paralyzed, but this behavior changed in April, therefore, there was a significant increase in online sales after that period.

So there was a seasonality impact and also there was a poor performance of sales as a whole throughout the country.

Mr. Mendes: Thank you, Alberto, thank you, Jean. Thank you very much.

If you allow me, I have a follow-on question. So with this backdrop, when everything is more constant, there was the impact of PinPag in this quarter that put the representation of Linx Digital down a little bit. So in the second quarter maybe we should expect some return to normal, so Linx Digital representation would increase in the overall scenario, right?

Mr. Menache: Yes.

Mr. Klaumann: Digital's performance on Q2 will be more positive.

Mr. Mendes: Yeah, great. Thank you.

Operator: Our next question is from Daniel Federle, from Credit Suisse.



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

My first question relates to trying to understand how determinant should Digital be in terms of the total revenue of the company in the second half of the year, because in the past quarters you've been saying that revenue growth in your core business hasn't been as strong because of a strong pressure on the retail business. But looking at this overall scenario, it's more likely that in the second half retail business will still be slow-moving, so Digital therefore would have to be extremely strong.

Do you anticipate that move that it will be just as a strong, so strong that it would be able to revert the performance of Linx in the second half? So this is my first question.

In terms of cost, in your press release you expect to see a quick margin reversion in this second quarter and whether this cost reversion would be permanent or whether it's just a one-off event. After it goes down, should it remain low or it would be impacted by other moves and then costs will resume, will start growing again in the second half?

Mr. Menache: Hi, this is Alberto. Thank you for your question. In terms of the consolidated margin and increased revenue in the second half, it's very difficult to be precise in terms of consumer behavior once we look at a further horizon. Today, we have a lot of... I mean, some malls are already operating in Brazil, but in the next coming weeks this number should increase substantially. Online business will not go back to the previous level, but it is also very likely that it will not remain at the current levels.

Therefore, I believe it's still too soon to tell what the most long-lasting effects of the crisis will be. Having said that, if the new normal would be the month of June, then Digital's contribution would be really relevant, I mean, looking forward.

We just signed a new e-commerce project and that's quite relevant. Now speaking about costs, most of the measures we adopted are here to stay, and some are not. As we said before, you know, vacations and other things are temporary measures. But now what is then here to stay? The new level of costs with traveling, this new level will be much lower than what we had before. Just to give you an idea, we used to spend more than R\$1 million a month between trips and accommodation, and this now will be just 20% of what it was in the future.

In terms of the size of our overhead, our overhead and the teams shrunk when compared to November last year, also early this month we made an adjustment because we had frozen all of the dismissals and so maybe in June we will dismiss a few people, and this is permanent. And another cost reduction, which should also be permanent, is that we used to hire a lot of third parties to help us



with Research and Development, and this number has been reduced. So now we see this new normal.

We have some new measures like vacation, leave that is temporary, and you know, overhead cuts and there are other measures that will be permanent. But then I would like Jean to elaborate more on that.

Mr. Klaumann: Good morning, Federle. As our main growth driver for Digital in these past periods and the open management solutions, Q4 and Q1 were very robust, we were bringing a new customer on board every month, and this was quite significantly given LinX portfolio, and this shouldn't happen in the first months of the pandemic. I mean, once we see stores being reopened, we don't see any significant move like a new project, a new major omnichannel project.

However, all of the other 20 projects that we've been operating so far, everything is running smoothly and normal. We were even able to do the go-live of some of these projects, like Vivara is one of these examples; they went live just a few days prior to Mother's Day and that was an amazing performance and, you know, recently we also did the go-live for Tok Stok.

On the other hand, when we look at the reduction on new projects, they will reduce our nonrecurring revenue, we were very agile in adopting more inclusive solutions because there were things that were not in our addressable market, like the pharmacy market. We launched an online sale solution through marketplace to the Farma business and this was a product that was very well accepted, and the volume of new customers using our e-commerce platform, our traditional e-commerce platform, this also grew substantially and in a very robust way.

This past month we surpassed to 50 new customers. We have the current brands from our installed base and we have new customers that were not part of our installed base, therefore, we were very positive in terms of what we expect looking forward, but as Alberto said, that's very difficult right now to predict what would be the level of operational GMV because it would depend on the reopening of stores.

Mr. Federle: Perfect. I would just like another clarification. All of these new sales and integration into marketplace and e-commerce, this is just take-rate, there is no fixed amount. Is that correct?

Mr. Klaumann: No, Federle. All customers insurers a minimum revenue, and in addition to that minimum revenue there is an additional percentage over the sales, and we have the take-rate of the partners that we have.

Mr. Federle: Okay, thank you. Thank you very much.

Operator: Next question is from Suzana Salaro, from Itaú.



Ms. Salaro: Good morning and thank you for taking my questions. My first question relates to the new OMS projects. At the end of the year, you had 16 projects and now you have 20 projects. Could you let us know what are these 4 new customers that you were able to bring on board?

And then whether you could elaborate more on this new pharmacy online products. What is the status of this now and what are the Farma customers you have and whether you are also able to bring customers that are non-pharmacy customers to your platform?

Mr. Klaumann: Hi Suzana, thank you for your question. About OMS, when we talked about the addressable market in our solution, we have about 400 large retailers in Brazil, we have a lot of experience in the fashion market focused on high-end. What we mentioned last year is that we will start focusing on middle and high, and we were able to bring on board new names like Studio Z, La Moda, and etc., groups that have revenues of 600 to 1 billion a year and they realize the importance of having a more robust digital performance through franchises or even their own stores.

And renewing our penetration in this future addressable market, we focus on acquiring new customers outside the fashion market, and therefore, we see Tok Stok being a very important addition to our platform with home center and decoration, and we see a great prospect of growth. And in the 1Q, we also acquired Xiaomi, another market with a potential of digitalization and they are leaders in GMV in Brazil, but they don't have great integration with the physical channel, therefore, we consolidated fashion and now, you know, focusing on a lower level with Xiaomi and Tok Stok, which expands our pipeline in this market.

About Farma, we surpassed 100 networks in a very short period of time since we released the proposal or the project. But the Farma concept is much more flexible once we go back to what led us into that Farma business. The Farma and Digital has an implementation lead-time of approximately 90 to 120 days, these are days that it takes you to build up the catalog, to design a very specific look and feel, and when we have a catalog with a white-label look and feel e-commerce and the integration with Linx Pay, we reduce the setup cost and bring more agility to the platform.

So with Farma we are now adding other markets, like, you know, car auto parts, construction material, etc., which should be the next tranches of products that should be included in this digitalization and allowing those that had no digital products still in their platforms. And we also, with our partnership with Mercado Livre, we also have an important performance increase in GMV.

Mr. Hansen: Suzana, this is Jean, and thank you for your question. I would just like to add something in relation to your question because we are using digital offerings to differentiate ourselves in the market, and the Farma is a great example. Right now, with the e-commerce integrated platform integrated to marketplace, we introduced differentiated design.



I mean, Farma none of them had any digital penetration and we worked together with our sales force to look for networks that could make use of this digital tool. With Farma we are even changing their positions of TMV through the digital approach.

If in the past we had that for several segments, I mean, we used to position our RNP and TMV into our focus, and with the digital payment propositions now our sales force has been mobilized direct and indirect in channels they are now working with digital offerings with payments like, you know, gateway and payment links and now we are reaching new customers with that and after that we will change ERP and PDV as customers look for a more integrated solution. And with Farma we revisited the inside in linx.com.br just to show that our Digital positioning is quite distinct, it's different.

Ms. Salaro: I just have another question in terms of the focus of sales. Now during this pandemic period, do you believe that customers are willing to change that ERP during this pandemic period or this is something that will be a little bit broader?

Mr. Hansen: Especially with smaller retailers and food and delivery, we are managing to do some activations changing the ERP and other solutions in small projects. Those that are not, we start with Digital and payment options, but this upscale is on the side until they are ready to make the changes and the transition.

Ms. Salaro: Perfect, thank you.

Mr. Klaumann: Just reinstating that concept of our sales capacity and the deployment of digital solutions, in addition to team engagement, I mean, franchise team to expedite our e-commerce platform sales, since last year we introduced exclusive partnerships for Linx Digital partners and this is for companies that already engaged in this market. So in the 2Q, we will start with 20 networks that are fully operational using Linx Digital and we anticipate growth in terms of the use of our solutions by third parties.

Ms. Salaro: I just have another question about these 20 branches. Could you elaborate more in terms of how will be the compensation or whether there is something very different?

Mr. Klaumann: Well, the subscription revenue is not perpetual, it occurs in a limited period of time because as a SaaS solution we have in Digital, customer service is usually employed by us directly.

So there is a certain remuneration for a limited period of time and then normally the branch seeks other financial solutions and they add some of our solutions, so this gives our customer the capacity to evolve without any interaction with Linx.



Ms. Salaro: Thank you.

Operator: Next question is from Vitor Tomita, from Goldman Sachs.

Mr. Tomita: Good morning everyone and thank you for taking our questions. We have 2 questions. The first question has to do with that GMV increase. How much of that increase came from new customers?

The second question: In this 1Q, was there any impact of renegotiation or postponement of payments in your results and whether we should expect any major impact in the second quarter? Thank you.

Mr. Klaumann: Vitor, good morning, this is Jean. In regard to your first question, GMV, we have a natural flow of increase customers month after month, but it takes some time until the impact is more effective because of inbound and etc., so that 145% growth came from our partners an additional sales boom in terms of sales from our installed base, customers that already operated with us with that product.

Other things we did so that this technology could capture value during this period was to facilitate sales through WhatsApp, and this is a new flavor when you look at the same platforms of last year. So we are allowing the management of affiliate partners and we are talking about the salespeople from physical stores that continue to sell and deliver their products online through our expanded solutions. So these were dormant capacities of the product, but they helped us boost the performance of our installed base.

Mr. Hansen: Vitor, thank you for your question. Retailers with their doors shut down they seek to renegotiate all their contracts, and with Linx as well. We've been very firm in general; we were able to renegotiate based on postponements of 30 or 60 days and the effective cost of that is not so representative. Some retailers unfortunately reduce their scope of operation, meaning that if they had 20 stores and they know that they will not reopen with 20 but with 15, then we did some reductions of the scope that were one-off on a customer-by-customer basis.

So what we've been working on with our customers and more importantly than renegotiating with Linx is knowing whether they will be able to fulfill their inventories and so we suggested other options, like WhatsApp sales to some of franchisees and also the introduction of e-commerce. Many of our retailers didn't even have an e-commerce position.

And this was important to maintain some of our customers, like restaurants, generating business and maintaining their network working, and Delivery was something that helped to them a lot. This was a very significant assistance to our clients rather than giving them an extension of payment terms.



Mr. Ramatis: I'd just like to add something about payment postponement – and this is Ramatis – in March there was a small amount of request for postponement of payments, but in April there was an increase, and in May there was a reduction again. Looking at the total of requests, 25% were paid in the set time and in the terms that have been negotiated. So this is how we are working with our clients to help them continue operating.

Mr. Tomita: Thank you.

Operator: Next question. It's in English, from Sama Samana, from Jefferies.

Mr. Samana: Hi. Good morning, thanks for taking my questions. I hope everyone is doing well.

You know, maybe touching on the Mercado Livre partnership, have you sized maybe the opportunity in terms of orders for your existing customers that are going through Mercado Livre or thought about what the potential revenue opportunity is as more customers in your base adopt OMS to leverage Mercado Livre?

Mr. Klaumann: Thank you for your question. Marketplace in Brazil today accounts for about one third of total GMV in the market, and I do believe that, in fact, we have the potential to supersede 50% of GMV market in Brazil. However, so far, great part of marketplace sales occur through ship-from warehouse, which really penalize customer experience in terms of delivery speed and logistic costs.

Our agreements with Magalu, B2W and Mercado Livre and Rappi they were driven by the common agreement that we would do through physical stores to make available a larger number of products, therefore, they could be delivered quicker with lower logistics costs. Today on average, we had almost 80% of e-commerce carts were abandoned in Brazil.

So since Q4, our roadmap has been very intensive with all of our partners, including Mercado Livre, and with that we would be able to integrate the inventories from the physical stores, and with that we will bring new entrants into this agenda and therefore increase the GMV of our customers who sell through Mercado Livre.

Now we already have the first success cases, they've been able to make their deliveries, this is Marisa and some others. They have posted significant sales increases starting from your physical stores and offerings through marketplace like Mercado Livre, and this allowed them have a very robust GMV despite the fact that their stores were closed, but having their employees in the stores to facilitate the delivery of merchandise.

As we said in the beginning of the call, during the pandemic period, we revisited all of the agreements so that not only we would have our OMS customers in the



base, but any other customer that sells from their physical stores, and that's why we launched products and other solutions that allow us to do some simple publications, like in the case of Rappi, even if the customer doesn't have our own platform.

Mr. Samana: Great, that's helpful. And maybe just a follow-up. I know that the question on M&A was asked earlier in a contribution to growth, but I was wondering if maybe you could give us a more triangulated number on what organic growth in 1Q look like excluding acquisitions on a percentage basis. And maybe, what type of organic growth is the company assuming in the current environment on a go-forward basis? Thanks again for taking my questions.

Mr. Menache: Good morning, this is Alberto speaking. About M&A, our pipeline is still robust. There is one company that was in our pipeline and after the due diligence with the client because in our view the company would be severely affected by the crisis, so currently we are focusing on digital opportunities and other opportunities that, in our view, could be more resilient and that will also come out of the crisis more resilient.

Operator: Next question from Marcelo Santos, from JP Morgan.

Mr. Santos: Good morning everyone, thank you for taking my question. My questions relate to the margins. First, I would like to get a better understanding about how you see the sequential evolution of the margin given the initiatives to cut costs. You see an improvement of the margins quarter on quarter or maybe we should expect a jump in the second quarter? Or if you could please shed some light here, that would be good.

And the second question refers to Linx Pay margin. So looking at ITR figures and considering the financial revenue, the margin is about 8 or 9%, but this is a very unusual quarter, I mean, only 2 months because in March, you know, many things were closed. So what could you tell us about a more normalized margin for payment means the way it is today?

Mr. Menache: Marcelo, thank you for your question. This is Alberto. The Linx normal margin or the normalized margin would be about 20%, but how much above 20% is something very difficult to precise right now. Looking towards the second quarter, I mean, right now with the elements we have in hand, I mean, we are still far from closing the quarter, but I think we should still see some margin improvement.

But now looking forward, there are some factors, as Gilsinei mentioned before, related to the shutting down of stores and things that is out of our control and it's hard for us to estimate, and this could affect our recurring revenue and therefore affect our margins.



Right now, maybe what we can say is that churn and everything related to cancelations is below the historical average. This is something that we are still trying to understand, and probably I think it will not remain like that. But right now, our churn is below the historical average.

Mr. Santos: Thank you.

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

Ms. Azevedo: Good morning. My question has to do with the e-commerce solution in competitive environment. If you could tell us a little bit about what we've seen in the market. There are some very aggressive players offering e-commerce platform. Do you think these products are competitive? And also if you could talk about a launch roadmap about OMS, whether you can gain traction.

And finally, whether you see any risk of cannibalization of OMS products with the solution of LinX Payment and even new customers into your base or whether you don't think so, whether this is just a first step and at the end of the day they will probably hire their own solution or even OMS.

Mr. Klaumann: Good morning, Maria Teresa, thank you for your question. In terms of the competitive environment, in my view, I think we have a very clear position in both extremes: there is the long tail with solutions that could even be global given the scope and the simplicity of the solutions, and this is not a target market.

And we have middle market that carries a lot of complexities and we are very well-positioned in all of our solutions, and here it's important to have robust and scalable and integrated solutions, as we've been doing with the payment, and this places us in a very interesting competitive the level. And the high-end, which in Brazil it's still very infant when we think in terms of the online market. It's a market that tends to seek for best-of-breed solutions, they even have their own platform development and they only acquire other components that can help them escalate in terms of performance.

And this is what we do with Magalu, Via Varejo, Net Shoes and so many others that moved towards the proprietary platform, but at the same time they use several components from LinX.

So the competitive middle market environment we are talking about a very small number of platforms that are very competitive. So what we're doing is to strengthen our omnichannel capability because we have great know-how in terms of compliance, you know, physical retail management. And in the past, we are ready talked about success cases whereas we had migration of customers, like Oracle, Magento and others that migrated to us not because they wanted a better or worse platform, but because they wanted a more encompassing platform and they certainly trust our team because they know



that we continue to move forward with our competitive offerings in terms of omnichannel, and this is very important if we want to help retailers who are facing a lot of challenges at the moment.

In terms of revenue cannibalization, I do not believe in that. We are talking about looking for more inclusive solutions with the first step being the adoption of omnichannel solution. But right at first, when they start adding volume, retailers will certainly need more robust solutions, like our OMS.

During the pandemic period, some of our clients took more than 1,000 orders to a single physical store in one day, and with that you have a lot of complexities with pick-and-pack, reservation, integration with customer service, etc.

So obviously, we cannot take such complex solution to this first wave, but we will certainly be more ready when compared to other companies in Brazil in terms of their capacity to manage high volumes in physical stores with a mature solution like ours.

Ms. Azevedo: Perfect.

Mr. Hansen: Teresa, I would just like to add something related to Omni. In the food segment, after the acquisition of Neemo we were able to expedite the delivery process together with our sales structure and our channels and therefore, as mentioned in the release, we were able to grow sales by 4 folds, and this is our Digital proposition to the food market, where consumers can place their orders for delivery or takeaway from their favorite restaurants, and this helped many of our clients to keep their solutions and their operations going and the adoption was quick and the sales force was very agile.

In the Omni world, we are also seeing that with smaller retailers. Hiper was repositioned right in the first days of the pandemic, we promoted the integration of our Hiper platform with Mercado Livre and right after that we introduced e-commerce to small retailers and this just increased the flow of smaller retailers through the Hiper offering, through e-commerce platforms. And now, we are integrating also sales to help small retailers, and this is a good solution that they are looking for to keep their sales going in this period of COVID-19. So we want to keep them with us.

Another important aspect related to Omni channel, not only OMS, is what is behind mid and large retailers to support an e-commerce proposition. I would like to mention the Millennium solution, which has been sought-after by some of our retailers. In the past, they had to deal with 50, 40 orders a day, and now the volume has increased by 3 to 4 folds, and once you have a robust solution with customer service, returns, etc., even with the simple e-commerce operation there is an ERP that can understand e-commerce that has a good inventory management etc. So this is important that we expand to other customers outside our Linx base.



Ms. Azevedo: Wonderful, thank you very much.

Operator: Next question from Rodrigo Vilanueva, from Bank of America.

Mr. Vilanueva: Good morning, Alberto and team. I hope you and your families are well. I have 2 questions. The first question is: Did you notice any improvement in Linx operating performance in April and May when compared to the end of March or whether that improvement was only perceived in early June?

My second question is whether you can give us the transactional GMV in the e-commerce platform and what is the take-rate you are charging today and whether you have any long-term objective in relation to GMV.

Mr. Menache: Rodrigo, good morning. This is Alberto. Yes, we already noticed an improvement in April and May. I mean, the freeze in the business environment was mostly in the second half of March. In that second half of March, we took that time to reposition our portfolio. But now I will give the floor to Flávio because he will be able to explain that repositioning to you much better in terms of marketing, in terms of product and our go-to-market strategy, etc., okay?

Mr. Flávio Mambreu: Thank you, Alberto. Good morning everybody. I think that, at first, in this repositioning phase, we redirected the focus of our event structure, that went from off-line to online, and with that we made a strong push in number e-commerce offerings in the Digital world and also Delivery.

I think that was the main focus of the company at the time.

Mr. Menache: About the platform, GMV, Rodrigo, we do not disclose the GMV of the platform and not even take-rate.

Mr. Vilanueva: Okay, thank you.

Mr. Menache: But in terms of take-rate, Rodrigo, it's no different than the market average, right?

Mr. Vilanueva: All right. This is about 0.5%?

Mr. Menache: The take-rate of the platform is higher.

Mr. Vilanueva: Okay. Thank you very much.

Operator: Next question from Daniel Federle, from Credit Suisse.

Mr. Federle: Thank you for the opportunity to ask a question once again. I would like to take the opportunity that Denis is here: How do you see the opportunity of instant payment and initiation of payments, whether Linx could



benefit from these initiatives somehow? Also, I want to understand who the target customer is for Linx Pay in terms of segment, in size and whether there is any specific segment. So these are my questions.

Mr. Denis Piovezan: Hi, Daniel, thank you for the question. Our strategy is very adherent. We started with the idea of consolidating that in several transactions so we continue to work with the platform, we will be a player that will be ready in November, according to the Central Bank.

Our strategy is in keeping with what we've been building up and we are certainly evolving to be able to comply with all the dividends from the Central Bank.

Well, speaking about open banking, we are very much in line, we already have Hiper and the Hiper segment, we already have the entire open banking structure, they are already operating with open banking integrated with ERP, therefore, our strategy is very much in line with what the Central Bank is promoting. And by November we will be compliant and ready to operate.

In terms of the target customer for Linx Pay, our focus is, you know, the middle retailer with revenues about R\$1 million. When we look at Hiper, we start having smaller customers and there is some attraction in regard to Hiper Pay. We are also introducing new solutions and these solutions are gaining momentum this year because of, you know, a smart POS with our embedded navigation, and we are not only focusing on our initial customers, but we are deviating the focus to contemplate other customers.

In addition, when we added PinPag to our portfolio, we are also now looking at another type of customer with a different profile; not necessarily our traditional customers, but we are looking at customers outside of our base. I mean, attraction is interesting, PinPag was heavily hit in this first quarter due to the pandemic and in the second quarter results will still be difficult, but we are bringing new clients on board.

And now to answer your second question, I think that the integration with Digital has been exceptional, both in terms of margin and also in terms of new customers. All customers are leaving 100% with Linx Pay, especially in the food platform, 100% of the base already starts with Linx Pay and many of the Digital customers start out with Linx Pay and therefore we are able to increase our margin and profitability, which is the main focus at the moment.

Now speaking about a customer target, the possibilities increased a lot, the main volumes still come from our core customers. But in terms of Hiper customers, this has helped us increase our profitability significantly.

Mr. Federle: Thank you, Denis. Thank you very much.

Operator: Ramatis, your line is open.



Mr. Ramatis: Okay, I would just like to add to Vitor's question because that was a very important question, something that we've been managing on a day-to-day basis.

Just to clarify, from the total of postponements that was 100%, 25% has been paid out of that 100%. 15% have matured or they are right now being renegotiated. So, 25% was paid out and 15% has matured and been renegotiated, and the remaining is still within that payment term. So that's it.

Operator: Ladies and gentlemen, now we conclude the Q&A session. I will turn the floor back to the speakers for their final remarks.

Mr. Menache: This is Alberto. I would like to thank you all for joining us today. We are here for the long run. This is a very unexpected situation and it's also very difficult to plan.

But I think we were very well prepared to face this COVID-19 crisis, and I hope that things evolve quickly. And in our company, nobody at Linx got the new Coronavirus, but during that period we were able to reorganize our portfolio. We are very confident; our team is very united and ready to move forward and to rip the benefits of our investments.

Thank you all very much, have a very good day and I hope to see you soon.

Operator: Linx conference call related to the first quarter of 2020 results is now concluded. I would like to thank you all for participating and have a very good afternoon.