2Q20 CONFERENCE CALL – 12 AUG 2020

Good afternoon, ladies and gentlemen. You're welcome to Sinqia's earnings release conference for the 2Q20. Today with actually have Bernardo Gomes, our CEO; Leo Monte, Marketing and Innovation Director; Thiago Rocha, our CFO and IR; José Leoni, IR Manager; Daniel Fecci, Financial Manager; and Olavo Aires, IR Analyst.

We would like to inform that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After the Company's remarks, there will be a question and answer session. At that time further instructions will be given. Should any participant to need assistance during this call, press *0 to reach the operator.

Today's event is also a live webcast. The Company's release and presentation may be accessed through the website at ri.sinqia.com.br. Slide selection is controlled by you.

Now I will turn over to Mr. Bernardo, who will begin the presentation. You may begin the conference.

Bernardo Gomes:

Good afternoon. Thank you for your participation in our earnings release conference. I will start my presentation by slide number two. Just to summarize, we show you that, even with an adverse scenario, we were able to deliver excellent results this quarter, confirming the resilience of our business, and also the consistency of our strategy.

Talking about sales, we had an excellent quarter, with a highlight for May, which was the second best month in the Company's history. The sales have been very good and will contribute for future growth of the Company.

I would also like to highlight an investment of 9.5% in our portfolio, confirming the importance of our solutions in the financial markets. Our software, even in a challenging scenario, is essential for the continuation of our business. This has an impact on the low churn observed in the last quarter. Even with a challenging scenario, our software is still essential to our clients.

Talking about the results, we had a quarter full of records. We have revenues which were 17.5% higher than in the same period in the previous year. The recurring revenues had an increase of 23.2% versus 2019, and the adjusted EBITDA was 44.8% higher than quarter over quarter last year, reaching R$7.4 million. Adjusted cash earning was also much higher than in the previous year, and we reached R$2.6 million.

These results only confirm what I said in the beginning. Our business is very resilient. We have a very consistent strategy. Our business is based on software, which are essential to our clients. So even in a moment of crisis, they cannot go without our software. They are relevant for the continuation of businesses.

In association, our strategy where we privilege recurring revenues allowed us to reach 87.8% of a recurrence rate, which provides us a good predictability, allowing for the continuity of the acquisition strategy in our current market. Proof of this is our acquisition strategy.

Last week, we disclosed the purchase of Itaú, the most relevant in the history of the Company. With that, we start a new cycle of acquisition, which is charged recently, and I am sure that this is the first in a series of acquisitions.

In the beginning of this year, we also started a new investment program for emerging companies. We will talk about it in details later on, but this program already has six investments, and we believe that this is the future of the financial market. Right now, in a moment of crisis, we are making good use, and we are trying to accelerate our strategy even further.

In this slide, I would also like to highlight that we used this moment to accelerate innovation. We have started our solutions for instant payment at our Central Bank. We launched the first product that was developed at our innovation lab. It is called Plugi. It is for negotiation of canceled quotas of consortium.

We also used this moment to expand our services for digital transformation of our clients. I would like to highlight that in addition to the excellent outcomes of this quarter, we made important steps that will guarantee continued results for our business.

And moving on to the next slide, number three, I would like to tell you how we quickly adapted to the new remote working scenario. In the beginning of the year, we already had a home office program implemented for our employees. We have called it Multiflex.

At that time, even before the pandemic, we had approximately 15% to 20% of our employees working once or twice a week at home. With the beginning of the pandemic in early March, we adapted ourselves and expanded this program to 100% of our employees, and to 100% of the time. Today we can say that we have 100% of our employees working 100% in home office.

We had to adapt our routines and our management routines. On the other hand, we were able to go through the most critical phase of the pandemic, preserving the health of our employees, keeping the same levels of productivity, satisfaction.

And as a consequence, in this period, we had better indicators and higher satisfaction levels from the beginning of the pandemic, with higher NPS and lower turnover rates.

Also as a consequence of the pandemic and social distancing, we had a decrease to almost zero on expenses with travel, accommodation and events.

I would like to highlight here that we adapted very quickly to this scenario. I would say that we are conducting our businesses the same way or even better than he did before the pandemic.

Moving on to slide number four, I would like to highlight that in this period, we also helped our clients get ready for this moment. The digital transformation with the pandemic was no longer a marketing speech and became a competitive differential. The companies in this period saw how important it was to have this transformation in the way they conduct their operations, and I think that the companies that were more advanced in this digital transformation process did better through this period. Companies which own the maximum of automated processes and the minimum of human intervention.

And in order to collaborate with this process, we have accelerated the implementations; we greatly reduced the backlog which we had already reported in previous quarters; we optimized the entire service process to adapt to this new remote service scenario; we implemented the NPS, which is a novelty for the Company; we created new service offerings in a squad model to be able to help our customers to optimize their processes and actually make this digital transformation; and, above all, we took advantage of this moment to launch projects and new products.

Regarding to this subject I would like to ask Leo, our Director of Marketing and Innovation, to talk to you a little bit further about our innovation program.

Leo Monte:

Good afternoon, everyone, and thank you very much. I am happy to be here to talk about innovation and about what we have been developing.

As you all know, we are going through a transition moment, with a lot of transformation in our market. This is a very promising moment, and perhaps one of the most promising of all times, with a lot of possibilities.

As a Company that has a DNA of innovation, we have to be very watchful to all of these changes in technology and also in new business models.

It is a pleasure to announce to you that not only have we expanded investments in innovation, but also, I would like to tell you a little bit of our launches. Moving on to slide six, we had the official launching of PIX. We combined the innovation area to be able to deliver instant payment as a service.

We are one of the few bank technology providers that were able to obtain Bacen's license to offer PIX as a service.

Furthermore, we have two strategic partnerships to make our performance even better. I am talking here about Microsoft and Google. We also have activity that was started by our marketing team and that had any impact in the position we have had in the last few months.

In slide number seven, PIX is going to be one of the main changes we will see in the Brazilian market from now on, along with the open bank. We have a long way to go, including different sizes of players to be able to deliver or develop innovative solutions.

On the left side of this slide, we can see the official number of 980 institutions that have been involved in the first phase of our PIX. This only shows the potential we have inside and outside our portfolio.

We are talking about a high demand for our providers, and that provides a huge opportunity for revenue. We are now working with approximately 50 potential clients.

On slide number eight, the 2Q was amazing. We were very watchful to the novelties in the market, but we were also very watchful to opportunities of new models, which resulted from the activities held by our innovations' lab. That helped us to deliver an innovative platform to manage to consortium.

The platform is 100% online, and the administrators' Plugi, our artificial intelligence, understand what quotas were canceled and where the potential negotiation lies. The platform is made available, and with that, we can see the quotas and start negotiating with the administrators.

This is done 100% online, end to end, including the survey, negotiation, until a formalization of the negotiation and the transfer of this quota. This is all done safely, in a simple manner, providing benefits to all participants.

On the right side of this slide, we have the administrator, which improves the financial health of the Group. It is possible to balance the Group once again. For funds that increases the speed and the safety of operations; for consortium clients, it speeds up the recovery of the amount invested, and for Sinqia, it expands the products portfolio revenue potentials via the take rate.

In Slide nine, we have an innovative solution with a huge financial potential. On the left side of this slide, we can see that we have about 7 million canceled quotas, adding up over R$50 billion. This is before the pandemic. This has probably expanded.

We started with six administrators already plugged, and they represent a total of 4,291 negotiable canceled quotas. Our artificial intelligence understands if there is potential negotiation with the funds, and that comprises R$147 million in the financial amount open for negotiation. In other words, the financial size is very large, with six administrators, and we will quickly expand that.

On slide ten, in addition to the launch I just talked about, I would like to share it with you our open innovation model. With this innovation strategy, we can invest in emerging technologies and accelerate our business.

With that, we have inaugurated these startup investments by means of Darwin. We evaluated over 300 startup and we invested in six of them, bringing more technology to our portfolio. Emerging technology. Top notch technology. I have some examples here, such as banking as a service, artificial intelligence, RPA automation, robot advisor, cybersecurity, and also operational efficiency.

On slide 11, in addition to investments, we invested in new M&A trails.

I am now going to turn over.

Thiago Rocha:

Thank you, Leo. Good afternoon, everyone, for those who are here listening to us. On slide 11, I would like to tell you a little bit about what is changing.

We are opening two new M&A trails. You know that Sinqia has been consolidating the market for some years. The process has been very successful. It started with trail one, of matured companies whose objective is to expand our product portfolio, our customer portfolio, and the segments served, which are usually connected to acquisitions of subvertical theses, including banks, funds, pension, consortium and, in addition to that, nonbanks loan banks and insurance. We also have an acquisition of control as a model and a track record of 15 acquisitions.

This trail has a huge potential revenue of R$4 billion, and it is ready to be consolidated, and goes on as it was.

Then we have the acceleration, where we have made investments as Leo already mentioned. But what is new? The two trails in the middle. We had to fill in this gap. We know that we are going through a lot of transformations in the last few years, the solo financial product is no longer a prerogative of financial institutions per se as a product, it is no longer done on sight. And we have some specific technologies that enable us to have this transformation.

With that in mind, we open these two new trails. The second trail is focused in emergent companies and the third is (18:53) full initiative.
What changes? Our objectives change. We are talking about innovative technologies and disruptive models, which will be included in the future of financial services.

This means that we will have software for white label banking, BaaS, open banking, API integration platforms that use the artificial intelligence in business, financial programs and also solutions for digital transformation.

In these two cases, we have different models. In the case of emerging companies, we have an acquisition or control or a minority interest aiming at obtaining control of the operation in the future.

In the case of our CVC initiative, we will do it by means of co-investment with VCs. These funds will lead to a financial validation and of course, Sinqia intends to contribute with strategic innovation, leveraging from a technical point of view. Therefore, we have even more opportunities to work, and my expectation is that this inorganic growth will be even faster from now on.

Moving on to slide 12, it is important to say that we continue to deliver our plan. Last week, we announced the acquisition of ISP. We opened a fifth acquisition and, as Bernardo mentioned, it was the largest one made by Sinqia so far. We are very enthusiastic about this announcement.

This acquisition was based on the expanding of the product portfolio. We already had a complete software portfolio for the management of the assets. In other words, investments, also for assets and pension contribution, and also ISP.

So what is new? We have a software which is functionally complete. It runs 100% in the cloud. It is very updated from a technological point of view. It is an excellent platform for us to converge all of our products and clients over time.

The second one is to expand the client portfolio. Even more important than the quantity is the quality. Most of these consumers are related to the Itaú conglomerate. First line consumers.

Talking about the impact of this acquisition to Sinqia. We had gross revenues of R$15 million in the last few months, and when that is combined to Sinqia' revenue of R$16.9 million, we can see in a single acquisition an increase of 23%, which is very representative. ISP will have a significant impact as of now.

Regarding the EBITDA, we will separate it from other Itaú's operations. We estimate that we will have an EBITDA of 20% to 25%. And we may even go beyond the 25% in face of the way we intend to run this business, and therefore, from my point of view of margin, this will help us reach our mid-term objective to increase our consolidated EBITDA.

And finally, talking about the structure of the transaction, it is very interesting. The price is R$82 million, representing a multiple E.V. gross revenue according to the parameters that we ran. It ranged from 0.9 to 1.9 for a post IPO E.V. multiple, and extended payment with R$33.6 million, 41% in cash, and R$9.7 million, 59% in installments.

We will see that, after the cash payment, the results will be even better. We have Sinqia's assembly, we have Itaú's carve-out. And number three, we have the approval of CADE. We expect that in the next 30 to 90 days. This will all be concluded.

And now, moving on to slide number 13, in addition to the inorganic growth, we had organic growth. We had significant organic growth in the 2Q. When we look at the portfolio, we can see a final figure of R$150.4 million. You can see that there was a 10% increase in comparison to the 1Q20.

This was made possible because we had solid business negotiations in March and April. We had a little bit of a freeze between March and April, but as mentioned before, May was very good to compensate it. Besides that, between the quality of our client portfolio, product portfolio and the solidity of our recurring product. This is a very positive result. We have grown two digits in a moment of crisis, where inflation is close to zero. Makes us very happy right now.

On slide 14, we continue to grow revenues despite of the crisis. Our total revenue reached R$49.6 million, and the two businesses have grown. In the case of software, the growth was of 18%, reflecting the implementations held in the 1H20. Our implementation team is working at full speed. And in case of the services, the growth was of 16.4%.

We can see a lot of opportunities right now, and, as Bernardo mentioned, the digital transformation, which was a trend, is now an emergency of clients. We are moving around, so is the market, and we are here to help. We have seen new clients coming into our base, and it has allowed us to increase our services.

On the right side we can see the recurring revenue with a growth of 23.2%. Please note that we have a difference in the next year. Recurring revenues are becoming more representative, which is very good in a moment like this, with an economic turbulence, reaching almost 40% of our recurring revenue, which puts us in a very relaxing position.

On slide 15, in addition to the growth I just mentioned, we had increased the gross profit. You can see here on the slide, we had a growth of 35.3%, and we reached a margin of 43.8%, with a gain of 4.4 p.p.

In the two businesses, this was observed. In software, we had a growth of gross profit of 34% and the margin reached 39%. And that is because we have had new revenue coming in. The revenue is growing fast, and we have margins that are increasing, even if we still have some pressure of a compensation price. We still have an implementation team, which is very large, to be able to carry through the backlog.

In services, we had an increase of our gross profit of 40.9%, and the gross margin reached 22%.

And once again, in outsourcing, we can see that digital transformation, a new squad offer. This offer has higher added value, because we have representation in the mix and the service margin is going up.

In slide 16, we were also able to have diluted expenses. We had a total of R$9.9. million in the quarter, with an increase of 4.4%. And therefore, we were able to dilute expenses, and they represent 19.1% of our revenue.

When we break down the volume, we can see the commercial expenses and marketing, which added R$2.7 million, growing 3.4%, and they represent 5.5% of our revenue.

Here, in terms of marketing and commercial expenses, this is the only expense that we like to acknowledge, the expenses regarding commissions. On the other side, the expenses with fares and events have gone down because the events we usually participate in were canceled this year, and therefore everything is going fine and we are growing at a controlled level.

When we analyze the general and administrative expenses, they grew 4.9% and represented 13.6% of our revenue. As I said, it is very controlled. In the beginning of the pandemic, we made a commitment with our employees that we would not reduce their salary and the number of employees, and of course, to be able to honor this commitment, we have been very careful with increasing the number of our employees, especially supporting employees. We have renegotiated some contracts, and we are also aiming at reducing our travel expenses because of remote work, as Bernardo mentioned. All of this combined has allowed us to dilute expenses with a higher revenue level.

On slide 17, we have delivered a new EBITDA record. As you can see here, we reached a margin of 14.9%, with an excessive gain of 2.8 p.p. of the margin. EBITDA is a new record. It makes us happy.

And also, for the adjusted cash earnings, we reached R$9.8 million this quarter, and the profit has followed the EBITDA growth.

On slide 18, our balance sheet remains solid in the 2Q. Our gross cash breakdown, we closed the quarter with R$336.3 million. It was stable, even in this scenario with increased gross debt.

And we also had amortization, according to our plan. As a consequence, we have a net cash of R$250 million, with an increase of R$14 million, which is enough for us to move on with the consolidation process at an accelerated pace.

If we had paid ISP in the 2Q, our gross revenue would remain above this level, which is very comfortable.

Moving on to slide 19, I would like to mention in this quarter that our balance was also not impacted for default. Our accounts receivable closed at R$23.4 million. We can see that the overdue balance also decreased, which is very encouraging and proves the strength of our client portfolio, including financial institutions of large and medium size as our clients. So we will be there, they will continue paying, and we can keep a very solid balance in terms of accounts receivable.

Now, I would like to turn back to Bernardo for his final considerations.

Bernardo Gomes:

I am now on slide 20. At the end of our presentation, I would like to reinforce that this quarter only confirms that we have a unique company combining growth and resilience, with a consistent and well executed strategy.

Our clients are our first line clients. They demand technology. Our products are essential products for our client clients to keep their businesses. We have a model which generates a high level of recurrence, and it allows us to carry out our plans. We have had a consistent strategy with a lot of discipline.

Going on to slide 21, this makes us very confident that we are ready to deliver continuous results. Our software guarantees that we will be able to expand our portfolio in the financial market with the selling and up selling as huge opportunities for organic growth.

We have services also. New offers complying with the digital transformation. By means of innovation, we have pursued the continued development of our product. And furthermore, seeing new opportunities for business solutions, launching them in the market.

And we also have a successful M&A strategy with a consolidation of our market. And as of now, we have investments in disruptive companies.

We are very excited with the future of the Company. We are very happy with what was done this far. We know that what we have in the future is much better than what we have right now.

On slide 22, to wrap up, I would like to reinforce our objective, which is boost the financial market by connecting companies and people to the future.

This is my final message, and we are now going to open for Q&A. Once again, I thank you all for your presence here with us. Thank you very much. Thank you.

Luiz (via webcast):

Do you have any software to control taxes and portfolio for physical persons?

Thiago Rocha:

Good afternoon, Luiz. Thank you for your question. Right now, we are focused in controlling investments' portfolio. I'm talking about funds, clubs and portfolios managed for investors and individuals as well, but through software that is sold to institutions such as administrators, controllers, custodians and investment fund managers.

Being very objective, yes, we do have a software that allows the control of the different portfolios. It is not sold directly to physical persons. It is sold to institutions which are part of this fund investment chain, and they, in turn, use our software to meet the needs of physical persons that are their own clients.

Matheus (via webcast):

How much does Sinqia has ready for new acquisitions? Do you want to capture more resources from the market?

Thiago Rocha:

Thank you very much for your question. Right now, when we look at the balance for the 2Q, we can see a growth of R$363 million, and a net one of R$260 million.

So what we have from the 2Q, if we think of our gross cash, we have up to R$300 million to invest in acquisitions.

But I would like to remind you that we have a capacity to leverage SKU based on the EBITDA we already have. And also, we have the EBITDA that includes the new acquisitions. When I considered everything together, I have an ability to invest almost R$600 million in the next few years in this consolidation process, and not only in consolidation, but also to improve our products and the service we provide or consumers.

So with the cash we already have and what we can capture in the market, we have up to R$600 million. First, we will use what was captured in September last year, and the second step is probably to increase the leverage over the Company. We would rather do it using more debt than equity.

Roberto (via webcast):

How does ISP's service compares to Sinqia's? And what are the opportunities and synergies that are enabled?

Thiago Rocha:

Thank you for your question, Roberto. Sinqia's and ISP's segments are a bit different. In Sinqia, the service segment has two offerings: one with the software, which is not necessarily connected to our software, and another one for consultancy. And in the case of ISP, we have outsourced services, BPO, which runs based on ISP software, and therefore in this case we sell the service and the software together. It is matched sale.

But where is the main opportunity here? The complementary pension world, we have a little bit over 300 of such entities in Brazil. Part of them wants to buy software and part of them does not want to buy them. The synergies would come by taking them to Sinqia's clients' portfolio which consists of more than 130 pension institutions and also offering them BPO, previously inexistent.

Matheus (via webcast):

Good afternoon. Could you tell us more about the PIX initiative?

Leo Monte:

Regarding PIX, we developed two solutions. The first one is the ISP, and the software as a service. It will enable us to provide this technology to enable direct participants who have decided to be participants of PIX, which means that those who want to participate will need to have this technology, this infrastructure, and we are the providers, and perhaps one of the few players who have been authorized by the Central Bank. Therefore, we will be able to provide this technology to these companies.

We are talking about 190 companies that have asked to participate, and 120 of them are direct participants. We will have new invitations by the Central Bank.

Talking about the potential of this business, this is an excellent alternative to what we know today as TED and DOC payments, be it transfer of money, payment of accounts. All of this will be transformed by means of PIX, instant payment, so that new experiences are created.

These companies will need to have this technology, and this is something that we will provide to all of these entities.

Isabella (webcast):

What is the potential market that you foresee for a new M&A lines?

Thiago Rocha:

Thank you for your question. We have consolidation work to do in trail one, which remains, and therefore we continue looking at opportunities from banks, pension and consortium, and also insurance.

In this universe, I can tell you that in the last three years we had significant advancement with banks and pension funds. We need to expand in this world of funds. There are a lot of new opportunities that have come up in the recent past, and so the markets that we already are will always provide us more M&A opportunities.

In the case of funds, we still have a lot to complete in our product portfolio. And of course, we have the two new trails I discussed with you. These are very interesting initiatives of companies that are very creative. This is something that is only starting first Sinqia, but it will be fast, and we will try to be at a position to have future portfolio and clients. We are now looking at 2040.

Vicenzo (via webcast):

Congratulations for the excellent results. I have two questions. First one, the margin expansion was clear. I would like to know if this will remain based on the projects that were ongoing.

Number two, were there any changes in the current negotiations? Could we say that the next transaction will follow at the level of 1.5 of revenue?

Thiago Rocha:

Thank you for your question. Regarding the first question on margin expansion, yes, we believe that there is a trend of margins based on the dynamics that I mentioned. On one hand, we have an incremental gross margin, which is higher than the average. And then, on the other hand, we have a process with the implementation, which will not necessarily be kept at the same level.

Therefore, I believe that for the 3Q we can see this trend clearer. And I think that it will continue in the 3Q and 4Q. We believe that this is a trend that we are working to deliver.

Regarding the next question about the ventilation changes in trail one, the answer is no. We do not see any changes. We believe that these levels are very similar to what we had in the second cycle.

Of course, each company is a different company. They all have different growth rates and different margin levels, and we also have things to consider, such as quality of products.

So this is not carved in stone. But whenever we talk about the other trails, we have emerging companies, which clearly different growth, and those intangibles that are clearly differentiated, we can move away from this level a little bit.

Operator:

Thank you. We now close our Q&A session. In case your question has not been answered, please, talk to our IR specialist. I will now turn over to Mr. Bernardo for his final consideration.

Bernardo Gomes:

Thank you very much. I just wanted to reinforce my gratitude for your participation in this teleconference, and tell you that our IR team is available to clarify any further questions you may have.

Thank you very much.