

Conference Call Transcript Locaweb 4Q22 Results

Gracielle Silva:

Good morning and welcome to Locaweb Company's 4Q22 Earnings Conference. I am Gracielle and I am in charge of PR. With me today are Fernando Cirne, CEO, and Rafael Chamas, CFO and IRO of the Company.

This conference is being broadcast live via webcast with simultaneous interpretation into English and may be accessed at ri.locaweb.com.br. The slides will be available on the webcast link.

The statements contained in this document relating to business prospects, operating and financial projections and Locaweb's growth perspectives are merely forecasts and, as such, are based exclusively on our board's expectations for the future of the business.

These expectations rely heavily on market conditions, the performance of the Brazilian economy, the state of the industry and the international markets and, therefore, are subject to changes without previous notice. All variations are calculated based on numbers in thousands of *reais*, unless otherwise stated, as well as the round numbers.

This performance report includes accounting and non-accounting data such as operational organic and pro forma financial data, as well as projections based on the expectations of the Company's management. Non-accounting data have not been reviewed by the Company's independent auditors.

For the question-and-answer session, we would like to ask you to, please, send them using the Q&A button at the bottom side of your screen. By standard practice, your name will be announced and a pop up should come on your screen, so that you can open your microphone.

Let's start the presentation.

Fernando Cirne:

Thank you, Gracielle. Welcome everyone to Locaweb Company's 4Q22 Earnings Conference.

I would like to thank everyone who contributed for us to state these results. So, starting with 4Q22, in terms of net revenue, we saw growth by 23.2% in 4Q22, versus 4Q21. And, for the full year, our result was 42.3%.

About the commerce net revenue, we had a more substantial result, 46.3% during 4Q22 and 81.9% over the year, so a significant growth. Still in the commerce segment, we have made some headway and it now accounts for 68% of the Company's net revenue, which is to say, Locaweb is now consolidating its position as a commerce Company.

The companies we have acquired have grown substantially this year by over 50%, which contributed heavily for this EBITDA margin for this group of newly acquired companies, even though we acquired essentially one new company throughout the entire year of 2022, saw significant EBITDA margin growth.

4Q22, when compared to 3Q22, saw a 2.2 percentage point increase and, when we compare 4Q22 with 4Q21, there has been a 9.1 percentage point gain. This was a result of this increase in operational performance and also an enhanced cost control throughout the organization. We are thus very happy with this EBITDA margin growth.

Our net profit in 4Q22 was R\$18.9 million in the quarter, and R\$30.3 million in full year 2022. Our base of recurring e-commerce clients, including Tray, Bagy, Dooça and Bling, continued to grow in a consistent manner in 4Q22, even though this was a time that we saw as more challenging and came to 162,000 new subscriptions.

This was especially because we were able to continue to grow our customer base at the same healthy pace for the sixth consecutive quarter, and our ecosystem, closing as a whole, generated a R\$14.3 billion GMV in Brazilian e-commerce.

Moving on to the next slide, we have the share of e-commerce within our group. In 4Q21, we went from 57% to 68% now in 4Q22 for e-commerce within our group.

In this new slide, we have the growth trend for our subscription base. As I said before, we have come to 162,000 subscribers, bringing in 11,000 new subscriptions during 4Q22. Therefore, we were able to keep the same pace of growth that we have seen since 1Q20, close to 10,000 new subscribers per quarter.

Now, we have the main reason why we are growing at this consistent pace, which is the continued pace of new customers, which we have seen since 2020 and has been maintained ever since the pandemic began, and we are not seeing the infamous rebound effect.

That addition of new subscribers has continued especially because of our enhanced ecosystem, which has become a great source to attract new customers to the commerce space, as we call it.

Here, we have the Rule of 40, the net revenue growth combined with our adjusted EBITDA margin. So, looking at the combined overall, we have 47.6%, and when we look at the e-commerce organic, we have 84.4%.

The e-commerce platform GMV went up 14.4%, but when we go a little bit deeper and look at our own stores GMV, we have a 22% growth YoY. Now, why is that? Because we continued to encourage our clients to do their own market.

They sell really well via the marketplace and that is very important to them, but we want our clients to be able to work their own market, which is why we have developed features such as integration with social commerce, as well as tools that potentialize the client's own database, and so on and so forth. This has really worked and our clients have learned how to do their own market.

Lastly, an interesting data is our entire ecosystem GMV. This is the GMV for our e-commerce platforms combined with the GMV for ERP operations and marketplace integrations. That has increased 30.6% between 4Q21 and 4Q22, far exceeding the e-commerce market in general.

The net revenue growth for our top five newly acquired Companies - Bling, Melhor Envio, Squid, Vindi and Octadesk - in 4Q22, we grew 56.5% over 4Q21. So, as I said, our newly acquired Companies have grown by over 50%, which is the main reason why their operational leverage has increased.

Of course, there is a cost control factor as well, the synergy that comes from the combination of brands, but, interestingly, there has been no decrease in 4Q22 when compared to the full year trend. What we recorded in 4Q22 is very similar to what we had in the rest of the year, so there has been no slowdown.

We know that 4Q22 was a more challenging time for the group at large, but this did not apply to the newly acquired Companies. This makes us really confident and is a very important data point when it comes to our wish to continue to gain profitability over the next few years.

The operational performance of our top newly acquired Companies. When we talk about Bling, 4Q22 versus 4Q21, the GMV concerning the invoices issued by Bling went up 34% and the number of tickets issued by Melhor Envio increased 8%, but Melhor Envio's net revenue went up 33% because of the change in its sales model which was very efficient for the group.

Now, on Vindi, Vindi's TPV went up 63.4%, to 1.5 billion in 4Q22, driven by the continued generation of synergies, which now account for 32.2% of Vindi's TPV. This was the result of continued work. We will continue to invest in that. The realization of synergies is one of the reasons why we acquired this Company and we will continue to do that moving forward.

What should we expect in 2023? First of all, Locaweb is and will continue to be a growth driven Company. The scenario today is challenging, but we will continue to outgrow Brazil's e-commerce market on three different fronts: by developing our products, our products have great NPS, our clients love our products but they do need to develop and that is something we will continue to work on.

Second front: cross-selling. We have done a great job integrating our newly acquired Companies, and I guess I can say we are three quarters along the way, but I still believe that we have not made the most of cross-selling.

We have a few examples, such as the use of Melhor Envio by Bling and by Tray, which are two of the biggest traffic generators for the group, but there is still a lot to do. Cross-selling is not just about integration, it is about offerings, communication and providing a product at the right time to our clients. So, there is a lot of work to do in terms of cross-selling, which should be a strong source of growth for the group for the next 4 to 5 years.

Lastly, expanding the addressable market with new products via Wake. Just a little bit on Wake: Wake is the old Tray CORP, which came from the acquisition of (12:26), which we conducted a few years ago. We are now combining that to other acquisitions of products that serve the medium to large market, which is Tray CORP's market.

Then, we are consolidating that with companies such as All In Social Minor, Samurai, Ideris, Síntese, and we will rename that operation Wake. The new name is expected to be announced in this quarter, but most importantly, Wake has existed for years. We worked over the entire year 2022 to integrate Tray CORP with these other companies to build Wake.

Wake already has over 100 million in revenue and it has over 60,000 clients. So, the brand is being released now, but it is already a reality in this market that is very weak in terms of competition. Therefore, we expect great results there and I wish the entire Wake team the best of luck.

Strong EBITDA growth. This is something we have shown and Rafael will talk about our margin

performance. This comes especially from the operational leveraging of our newly acquired Companies which, as I said, have been growing by over 50%. This should contribute to this widening of margins.

We have acquired over nine percentage points over the course of this year. There is also the continued consolidation of our operations. Wake consolidates over five brands and this is a trend that we will continue on for the next few years.

We have acquired new Companies with the purpose of integrating them, and now we are seeing this process that will be piecemeal, consolidating those operations for our clients, and lastly, strong cost control to ensure profitability gains, even against more challenging international scenarios.

One interesting thing about 4Q22 was that, despite the less friendly international environment, we were able to control costs and sustain our gains. This is very important for us to continue to add gains in the quarters to come. So, this is the message about how we will continue to widen our EBITDA margins.

Lastly, cash generation, which we expect to be even larger than EBITDA growth because of a proportionately smaller CapEx and financial expense growth, which we plan to work on throughout this year.

Therefore, this is essentially it, this is the message I had for you. I think we had numerous accomplishments during 4Q22, so I would like to turn over to Rafael Chamas, who will give a little more detail about all of this.

Rafael Chamas:

Thank you. Good morning, Fernando and good morning, everyone.

Some of the facts and figures I will mention have already been mentioned, so I just wanted to consolidate everything. At the top, especially net revenue and e-commerce revenue, our net revenue grew 23%, then closed the year at R\$302 million.

The e-commerce revenue also went up 46% and some of the elements that led to that. The ecosystem GMV grew by 31%. Our platform subscriber base went up 32%. We came to 162,000 subscribers in all the group's e-commerce platforms. Our TPV went up 63%.

So, these are some of the elements that led to that 46% growth in commerce net revenue. Also, importantly, our adjusted EBITDA margin went up 16.1% with a R\$1.4 billion in cash position. Our net accounting profit was R\$19 million, and again, our net cash position R\$1.4 billion.

A little bit more detail about our revenue performance during 4Q22. The 23% I mentioned before going to R\$302.9 million was the consolidated result. Therefore, in commerce, we ended at R\$206.4 million.

It is important to note this is essentially organic. We have nearly no contribution from our recent acquisitions here. This was mostly driven by the newly acquired companies. Fernando showed our pro forma figures, growth by over 40% during this period, which really helps our commerce performance.

And another segment, BeOnline and SaaS, ended with R\$96.5 million, down 7.9%, but it is important to note that this was not an operational decrease. There was a one-off effect because we migrated this operation to a new accounting system.

We finished migrating all the clients here to our new billing system and, in doing that, there were adjustments in these clients' contracts, which led us to record a different running rate for the Company.

And, when I make this clear that this is not an operational decrease, I will give you more detail about the performance in January and February of this year.

The pink bars give us an overview of the customer base for BeOnline and SaaS. And when you look at the last bar, you can see that there has not been a decrease, but there has been a decline in our ARPU, and then, in January and February, it has come back to R\$86.3 million, which is very similar to what we had in overall 2022 with a stable customer base.

So, just to stress it again, the 7.9% decrease has nothing to do with performance. That was because of an effect that you can already see coming back to normal in January and February.

Now, looking at the figures for the year, we ended our net revenue in 2022 at R\$1.138 million, up 42% year-over-year, having e-commerce as the great driver of growth, with nearly 82% to R\$721 million.

There is the one-off effect that, as I said, we had organic growth of the newly acquired Companies of over 50% pro forma, which led to this outstanding growth and, in BeOnline and SaaS, R\$416.7 million.

This is the trend for our margins. It is very important to look at this to understand what happened. We have the adjusted EBITDA margin by segment: in blue, our organic commerce performance; in red, our organic BeOnline performance; and in yellow, only for the companies that we have acquired post IPO.

Therefore, the first line, organic commerce, we always say that, after the pandemic, to sustain this growth, our margin has been around 35%. Of course, we have had better results in one quarter or another, but with seasonal effects, so these are margins which are stable and the level that I mentioned is sort of the trend for this operation.

The BeOnline/SaaS operation, despite the one-off effect that I mentioned for revenues, obviously that is mirrored by the EBITDA margin results, even in spite of that, we still had a 21% margin, which is in line with what we have seen in the recent quarters and then, the margin for newly acquired operations.

Those acquisitions, when at their worst, came to -11%, precisely four quarters ago, but the recovery trend is very clear. So, we ended 4Q22 with nearly 10 percentage points gain in our margins from 4Q21 to 4Q22, and, evidently, this benefited from what Fernando mentioned, which is the robust increase that we have seen in these operations that exceed 50%.

Then, there is a clear profitability gain because of scale. Obviously, there are effects here from cost controls, mergers and acquisition which also contribute, but the boom that we saw over the year and in 4Q22 as well is critical for us to understand that this trend is expected to continue moving forward.

And, lastly, these three components lead us to say that we are a Company with clearly growing margins, clearly widening margins. We are seeing growth above the organic BeOnline and, because this is a much higher wider margin, the effect of the mix would already lead to an expansion and we already see BeOnline on the organic side also growing.

Therefore, these three fronts are what lead the Company to expect wider margins in the next few years, especially in 2023, as Fernando has already said.

Looking at the adjusted EBITDA for 4Q22, we closed 4Q22 with a 16.1% margin R\$48.7 million. Again, this has an effect on the accounting situation. Our commerce operation saw a significant increase in terms of margin percentages which went from 8.9% to 15% and the result from R\$12.5 million to R\$30.9 million.

So, very significant margins and also our newly acquired companies also recovering their margins and growing during 4Q22, as well as BeOnline going down 6.6% despite that margin growth because of that revenue effect that I mentioned before.

And now looking for the full year, we ended the year with R\$172 million consolidated EBITDA, 15.1% up 20.6% vs 2021. When we look at the consolidated results, commerce was responsible, but those components that I mentioned before should put the margins at higher levels than the 15 points that we reported for the year at large.

Looking at our profit, we have the adjusted profit on the right and net profit at the left. The adjustments that we do are PPA amortization and adjustment to present value as well as restatement of lease liability.

We see losses being recovered both during 4Q22 and in the year at large, looking at the full year, in 2021 we had a R\$15.7 million loss that we reversed in 2022. So, we also went from an adjusted profit of R\$85.5 million to R\$162.8 million.

Now, how do we understand this greater profit during this period? This chart shows that it is purely operational. Here, we break down what we call the operational EBITDA and post-financial impacts such as financial results, taxes and D&A.

The most significant impact comes from our EBITDA, which grew 55.6, which makes us comfortable to say that the Company's profitability will continue to grow. Here, we have an increase in our operations that is much greater than what we have in the Company's other activities.

And, lastly, the Company's net cash position. Our cash ended at R\$1.5 billion, R\$1.448 billion, to be precise. The Company doesn't have any debt anymore, only its lease liabilities, so our net cash is half a billion, R\$515 million. We still have some earn-outs so, considering the complete payment of this earn-out, we are talking about half a billion.

Now, with that, we move on to our Q&A. Thank you very much.

Marcelo Santos, JP Morgan:

Good morning, everyone. Thank you for taking my questions.

I would like to focus on your margins. If you could please talk a little bit about the impact on your margins of the Wake release and how do you expect that to evolve or to unfold throughout the year? Will it be more on your organic business? Will it be more on your newly acquired companies? That is my first question.

My second question is about the organic margin for commerce, which is now running close to 40 and you mentioned that a sustainable level would be 35. So, what are the additional investments that you plan for that movement from 40 to 35, and when should that take place? Thank you.

Fernando Cirne:

How are you, Marcelo? This is Fernando speaking. I will start by talking about the organic margin.

Wake will have no impact on our organic margins. Over the past year, we were able to add a nine percentage points gain, and we understand that this is the pace, this is the trend that we will see moving forward.

Our inorganic operations have grown by near 50% year-over-year and they continue to grow at that pace, so this is what we expect in that sense. Even with slower growth, I think this result helped us to show that we have our costs very much under control, so we are able to manage that.

In terms of organic growth, we have been telling the market that our basic margin is close to 35%. Therefore, the 39% that you saw, we understand, is a little bit above the average. We understood that spending was a little bit lower at the end of the year, even because of the higher prices, because of the World Cup and non-recurrent effects like that.

Then, ultimately, we did not have to spend so much money on media in 4Q22 to bring the same number of leads, which is good news, but we cannot say that that is a trend. I am still not comfortable enough to say that this is a trend.

So, we would rather state that the margins for our organic operations in commerce is closer to what we have seen in the last six quarters than what we have seen in 4Q22. I think that I am not comfortable saying that you should work for 38% or 39%, but the good news here is there is no pressure to the downside.

We are having a very good start of the year. We are seeing Wake being very well adopted and embraced by the market, much more than we expected. We expected a greater pressure on our margins in Q1, which does not seem to be taking place.

Now, what we might see is a one-off effect because of the shifting of revenue and the building of skills among our teams to develop specific projects. But I would like to state again that this shifting of revenue is small considering the sheer size of Locaweb, in a Company that has over one billion revenues, so very, very small and something that we will easily make up for.

And it is nothing that will affect the Company's margin trends, which is to sustain at least 35% in e-commerce and consistent growth on the inorganic side.

Marcelo Santos:

So, just to make sure I understood, this pressure that might come in at the start of the year would

be on the organic side, right?

Fernando Cirne:

Exactly. And, like I said, we expected strong pressure, but what we are seeing is something that is very small. In Q1, for example, that is not even being recognized, but on organic commerce, the overarching brand, Wake, where the implementation costs come in, is being seen but on organic commerce, not inorganic commerce.

Therefore, there is no pressure on our inorganic commerce, which is still following its pace of growth on its margins.

Marcelo Santos:

All right, that was extremely clear. Thank you.

Fernando Cirne:

Thank you, Marcelo.

Leonardo Olmos, UBS:

Good morning, everyone. I have two questions here from our side.

First of all, in your release letter, you mentioned your margins and I think that your answers to Marcello were very clear in terms of 2023. I just wanted us to focus a little bit more in terms of management KPIs. If you could give us a little more information about that and more importantly, detail your management compensation targets at this time.

And then my second question is about Wake. You always gave us a very good idea in terms of numbers, but, with regard to hiring a sales team or R&D requirements, if you could give us some color in a more qualitative way, that would be great.

And also, what does your partner ecosystem look like, considering that you already have R\$600 million revenue? So, a little bit more information about the Wake ecosystem to help it sell more.

Fernando Cirne:

Hi Leonardo. Good morning and thank you for your question.

I am going to take your first question and then I will turn over to Alessandro Gil, who will be taking your second question.

About our KPIs, how are our executives compensated in the near term? Talking about their near-term bonuses, these metrics have changed significantly this year. We have what we call the Operation KPIs. These are static points. They have to do with booking at NPS. This accounts for about 10% of their compensation, so not a lot, but a significant number, nonetheless.

This year, we added another metric which are cross-cell indicators. That is for all my direct reports and they account for 20% of their compensation, broken down into 12 cross-sell potential items for the Company.

Then, we are talking now about 30% altogether and the other 60% are divided into net revenue growth and net cash generation. And the net cash generation side has a much bigger share than net revenue growth, which is to say, cash generation will likely account for, I mean, this may range from one BU to another, because some of them have a greater share, but close to 50% of our executive's entire compensation plan.

Therefore, with that, you see how important cash generation is for all my directors. So, I have BU directors, but not only them, but also the back-office department, such as my CFO and his manager. Then, the leadership is very much focused on cash generation.

Now, another important thing, Leonardo, is we have very strong governance to monitor on the day-to-day basis how costs are being managed. So, it is not just about seeking bonuses, it is not just about looking at how our operations are being closed.

We have indicators which are monitored every 15 days, for example, about how our revenue by headcount according to operations and what the sales cost is doing, considering the operations. With that, we can ensure and control our EBITDA and results generation.

So, this was a huge shift in the direction of governance, not only in terms of short-term compensation, but also, in how the operations are managed on a day-to-day basis.

Thank you for your question. Did I answer your question?

Leonardo Olmos:

Yes, you answered it perfectly. Thank you.

Fernando Cirne:

Then, I am going to turn over to Alessandro Gil, who will answer your second question with a lot more proficiency than I could.

Alessandro Gil:

All right, good morning, everyone, and thank you for your question, Leonardo.

Let me try to break it down into three points. The first, more specifically about our sales team, it has already been set up since early January, so our team has been very well rounded and there is one side which is to build skills and put the pipeline together, but as was mentioned, we are doing much better than we expected at this time, which is why we are very upbeat about the year and optimistic about how we will develop our team throughout the year.

In R&D specifically, product engineering to be precise, there are a number of things, as Fernando said, we already had companies and products that were running within the Wake structure. Therefore, what we did in here, essentially, was to look at our structure, remove everything that was overlapping, so for example, we had several teams in some of our companies addressing some of the same issues, then we reorganized and restructured those teams and that added a lot of efficiency to our product engineering team.

We also hired some very strategic positions. Much of our investment last year was in the sense

of preparing for what we would have this year, so many of those deliveries are already coming along. We expect to hire a few people, but very few because we are essentially very stabilized.

Now, all we need are the licenses for our implementing or introducing companies. We already have a number of contract agreements that have been signed with those companies and the first sales agreements have already come via the channel without us doing anything essentially. Therefore, over the course of the year, we expect to see about 100 partners ready to sell and grow our products. If you have anything to add, please feel free to do so.

Leonardo Olmos:

That was perfectly clear. Thank you and have a great Friday.

Thiago Capucci, Itaú BBA:

Good morning, everyone. Thank you, everyone. Thank you for the conference, Cirne, Rafael and everyone.

I just wanted to, first of all, understand how you are looking at Yapay, the payments market and this movement that is going on with the American companies. I think that a lot has changed in the environment over the past few months, but we see a substantial increase in volume in TPV, but lower take rate and payments also with decline in take frame.

So, if you could give us more color about the price dynamics on the payment side, that would really help. In addition to that, if you could talk a little bit about what you expect in what concerns GMV. We saw the figure is a bit better, 14% for the platform, but we know that the market is not particularly easy to navigate at this point.

Then, if you could please speak a little bit about what you are seeing at the end, in other words, we are nearly at the end of the first quarter, so any update in that sense would really help. Thank you.

Rafael Chamas:

Good morning, Thiago. Good morning, everyone. This is Rafael speaking.

About payments, you put it very well. Our operation is growing at a very healthy pace, so, being very scientific here, the volume is really benefiting from the synergies that the group is realizing right now, we make that very clear in our report.

It is still a great engine and driver for this TPV system that we brought and that we invested in with Vindi, but not just in Vindi is great because our internal payment system captures payment terms at large. So, this obviously helps to grow the TPV, and that also helps to explain your second point, which is the take rate trend.

Of course, we saw a significant decrease in funding costs of that operation as a rate of TPV, which went from 1.22% to 0.95% and the take rate is also following the same trend. Now, the explanation for that, which I think is the most important, is a payment operation when purely as an e-commerce operator, which came from Yapay and now Vindi payments has come up, has more substantial pay rates, because embedded in this trend is the installment payment.

We have an operation that deals with longer payment terms, so, as a result, it has higher take rates. Now, the trend for a product within these portfolios that I mentioned, is not taking place necessarily in longer payment term operations, which is why we have different funding rates and take rates, and also very importantly, even if you look at the gross margin and the EBITDA margin, as Fernando has stressed as well, all that involve lower costs such as the acquiring term.

Therefore, this is what leads us to behave like that. Payments is still a great compliment to our portfolio because it is a high-ticket product. Our clients ultimately use that, so it is a very interesting product for us, because it is critical to our business dynamics and it involves an acquisition cost, a client acquisition cost, which is one of the main structuring aspects of the business. Then, we see that as an excellent product within our ecosystem.

Now I would like to turn over to Fernando, who will give us a broader overview.

Fernando Cirne:

Hi, good morning, Thiago. This is Fernando.

Thiago Capucci:

How are you, Fernando? Thank you. Thank you for your conference.

Fernando Cirne:

No problem. Well, I think I have three messages about GMV. The first of them, when you look at the platform, we have grown with our own operations exceeding the marketplace, so it is working really well, the strategy of teaching our clients how to do their own market. This has worked really well. We are seeing our clients do their own market using our tools increasingly more.

Now, second, I prefer to look at the ecosystem's GNV because that includes not only our platforms but also everything that involves the integrations with ITP and marketplace generators. That takes us to 36%, which, coincidentally or not, in other words, we went from 10 billion last year to 14 billion. That is a lot. 30% is a rate that far exceeds the market average and, whether you like it or not, this really speaks to our margin growth, which is 36%.

So, our GMV has grown keeping pace with our margins, but we have not grown our client GMV, but then, we have a very good indicator with the ecosystem GMV growing 30.6%, our e-commerce revenue went up 46%. Thus, the ecosystem GMV grew by 36% far out growing the market and our e-commerce revenue grew by 46%, so a lot more than those 30%.

Now, how do we see that? We do not have an independent GMV operation and we are able to sell products that go beyond the platform. So, this shows the power of having an ecosystem.

These are the three things we are seeing. First of all, with platform where we have a display, we sell a lot more in the marketplace, in our ecosystems, we outgrow the market in 30%, and the revenue from all of that is upwards of 40%, meaning we are being able to sell more products than merely platform and, obviously, 40% is far higher than any other e-commerce player has recorded.

So that is my answer.

Thiago Capucci:

Wonderful. That was very clear.

Now, just a quick follow up, considering what you are seeing moving forward and whatever you can speak about the first quarter, anything different from what we saw in 4Q22? Anything I think would help.

Fernando Cirne:

Well, obviously, we cannot give you any guidance, but I can tell you that we had a more challenging scenario in 4Q22, that we cannot deny. Even though our result was positive, we have two important messages: the 46% growth is very healthy and also our margin gains.

We have gained over two percentage points quarter over quarter and nine points year over year on the inorganic market, considering that we are growing over 50% that. I think that alone is a huge accomplishment. That is a reason for celebration.

And we are seeing somewhat challenging Q1, but where we are very much in line with our budget, so to speak. We are seeing no challenge to execute our budget. Of course, keeping costs under control and, going back to Leonardo's question, even which mentioned our cash generation, our target for this year is to grow.

However, more than that, we want to have a higher EBITDA and generate a proportionally higher cash flow and cash position than our EBITDA. So, that includes a lot more intense controls and with this governance approach, we are being able to achieve those goals so far.

Thiago Capucci:

That was wonderful. Thank you.

Thank you, Cirne, and thank you, Chamas.

Fernando Cirne:

No problem, Thiago. Thank you.

Marco Nardini, XP Investimentos:

Good morning, Cirne, good morning, Chamas and Locaweb team. How are you?

Well, I have one question from my side and thank you for taking my request.

The first one is regarding BeOnline/SaaS. I would like to understand the migration of Locaweb retail billing. We would like to understand what changes, in other words, what can you share with us in that sense? And I just wanted to confirm that it has no impact on commerce, right? I believe that the change in commerce billing is more recent.

And also, I wanted to understand more about the Company's EBITDA margin moving forward. I think it is clear to me that your newly acquired companies have developed their margins in a very healthy way, even after a year since their integration and Squid is probably narrowing those

margins.

Considering that Wake was released early in the year and the business is expected to have shorter margins in the beginning, what can we expect about that margin development, looking at both the organic side and inorganic side in the next few quarters?

And what share of revenue do you expect to have from this brand in the medium to long term? Because that margin tends to take some time to decrease, does that affect your margins for the year?

Thank you so much. Those were my questions.

Higor Franco:

Hi, Marco. This is Higor.

I am going to take your BeOnline question and then I will turn over to Rafael Chamas, who will address your second question.

So, why did we decide to change our billing system and why is that important to us? The billing system obviously is a very complex thing to do and it is something that we had been planning for a while now. Its execution takes some time, it is a medium-term execution and we decided to do most of that during 3Q22 and 4Q22.

Of course, this new billing system is highly focused on Locaweb retail, our main BeOnline operations, meaning its effect is restricted to that operation, but with that migration to the new system, our plan is to make that operation a lot more flexible and agile in terms of price update with our customer base.

Then, the billing system has been redesigned, so that, with this operation, which is one of the largest operations that we have in terms of client base, to be quicker whenever we need, for example, to pass costs along or pass along any change in our product packages.

Therefore, I think the most significant gain that I can tell you is increased flexibility and agility whenever we are restructuring or remodeling our services packages and prices for the end consumer. That is by far the most significant gain that we have had with that shift.

Now, if you could take the second one, Rafael.

Marco Nardini:

Yes, that was very clear. Thank you.

Rafael Chamas:

Good morning, Marco and good morning, everyone.

A little bit on the margin trends and going to your second point about the growth in Wake. Now, what can we say about margin growth? The Company will continue to see margin growth consistently because of two effects.

There is a simple numerical effect because of the mix. We have a large operation that tends to see its margins around 30-35% and far outgrow our BeOnline operations, whose margins are closer to 20%, so the mix effect alone already causes that impact.

And the second point would be, of course, the recovery in our margins and operations. At the time, they had its deepest impact on the Company's operation. We had -12 and, as you could see with the chart, the trend is very clear, which is now 9-10 percentage points gained in 12 months.

So, it is clear how that is taking place. We will continue to see that development for two reasons. The first being the companies that we have acquired recently have grown very significantly. Five of them have grown by over 50% and I am talking about the top five, which are companies whose EBITDA is already positive. Therefore, you see a clear increase because of gains of scale.

There is no logic for any company growing by over 50%, it is clearly by gains of scale and controlled costs. And there is also a very important point which is as we have already shown with Wake at large and a few platforms. One of our strategic priorities here is organizational integration, which include the integration of operations, obviously.

That way we simplify many of our processes and also have cost savings taboo. So, we have had in the past with Vindi and Yapay, and we have had now with Dooqa and Bagy. When we think about the new organization of Wake, we are talking about seven integrated companies with many processes being merged together.

That also confirms the theory that these margins of our newly acquired companies will continue to widen. All of that leads to increased margins for the Company being expected, going to the future.

I think I should even mention something that is broader. Obviously, we have been talking a lot about this in terms of demand. We have always planned to generate a lot of cash and we cannot fail to remember that this is a growth driven Company. Responsible growth, but growth nonetheless.

So, in this path of growth, we have a few avenues which are very significant when moving toward growth. All of them are very important for the group, Fernando mentioned some of them, such as the near-term compensation change for our management and Wake is, without a question, a huge driver of growth.

This is a significant industry. This is a market where we have room to grow and we have every capability that we need for that in house. Then, it has all the makings of another huge driver of growth for us and Fernando said how relevant that is for us.

We have a very detailed agenda of what those opportunities are. The last year, year and a half, is the time we spent preparing the ground for that and now is the time for acceleration. We have a few strategic initiatives and we have tried to detail that even because this is going to be one of the main sources of revenue for the Company.

And also, we will now be focusing on an expansion via financial services, always trying to not expose the Company to risk, but there are opportunities to be taken. We have had some very interesting strategic discussions with the board about that, and all of these are components that will play into our being a Company that also invests a lot.

Marco Nardini:

That was very clear, Chamas. Thank you.

Rafael Chamas:

Thank you, Marco.

Gabriel Gusan, Citi:

Hi, good morning, everyone.

I have a question about the earn-out. Obviously, we have had issues with adjusted cash development. I wanted to understand how that works every quarter. If you have some value to provide and if there is any potential in terms of what you will be actually paying and whether that will be lower than the value that you expect because of how your newly acquired companies are performing.

Thank you.

Rafael Chamas:

Hi, Gabriel. This is Rafael speaking.

This is a very important question. Now, we have as a policy, and this is a formal policy that I am talking about, which is a very transparent methodology in terms of how this liability is reported. There are two things that could affect the sum that we will be paying.

The first of them is what you have already mentioned. This is a sum that is brought to present value. So, there is a correction, the value is constantly corrected and this is the expense that we expect and on our financial result is by far the biggest chunk of my liability with the Company.

And the second, which goes to your point about how we assess it, what is the policy that we have about this liability? Every six months, so every January, every July and December, I will formally present this to the governance, the best forecasts the Company has for each of the companies with earn-out to pay.

Then, we model the entire business and the modeling is updated with all the current assumptions, which indicate in our view, the best business performance forecast and, by consequence, what is the earn-out that should be paid.

The deviations are really small for each company's earn-out, so we adjust that liability when there is any materiality that is shown. Therefore, this is an exercise that we perform constantly and what you see in the Company's balance sheet that is brought to present value is, without a shadow of doubt, management's best forecast about what sum should be paid.

Now, can there be any change or variation in that sum? Well, obviously, it can, but only if any variable changes its trend significantly. Today with the trend for every recent league acquired company with a payable earn-out, that is the fair value that we have recorded on our statement.

I do not know if that answers your question.

Gabriel Guson:

Yes, it was very clear.

Just to follow up, most of the earn-out, the figures are included and where are they recorded in terms of cash flow?

Rafael Chamas:

Well, I think you mentioned two things that complement one another. For every acquired company, we have a business plan until the time of payment of earn-out. That business plan shows the company's cost investment dynamics relative to the investment logic when it comes to media, if there is open CapEx and is guided by the size of the company.

So, if one company is growing more, and I can give you an example of one that is growing substantially well, Wake, we have some adjustments that allow us to move that up or down. And that is updated with the value that we have for a few metrics that may include the EBITDA and revenue of those companies at the time of payment.

Gabriel Guson:

That was perfect. Thank you.

Rafael Chamas:

No problem.

Victor Ricciuti, Credit Suisse:

Good morning, everyone. Thank you for taking my question.

I have just more of a follow-up, just to see if we understood your answer correctly.

The level of organic growth in e-commerce seems to have slowed down a little bit, but you are repeating constantly that the target for 2023 is to optimize your cross-selling approach and you have already said that the sales from Wake are doing really well, but what should we expect in terms of organic growth moving forward?

Fernando Cirne:

Hi, this is Fernando speaking.

We do see huge cross-sell potential. It is still difficult to gauge what impact that will have in terms of growth for us. Our prospects for Wake really are very bright. We have started really big and really well, but, overall, we expect the result for the Company to be slightly lower in terms of top line than it was for 2022 and that is because of the macroeconomic scenario.

Now, on the other hand, we expect that, in terms of EBITDA margin generations and free cash flow generation, to do considerably better than in net revenue growth. That is what we expect.

Yes, we will continue to grow. We have very interesting debt, in other words, we are still a growth driven Company and we will outgrow the market. I think what I wanted to convey, the message I wanted to send with the 30% GMV, and that is to say, we have also grown 46%, is that yes, we are growing our GMV more than the market and our additional growth is above GMV.

So, we have outgrown GMV, we have outgrown the market and our revenue growth is always higher than GMV growth. Therefore, this effect of outgrowing the market and outgrowing GMV is an effect that we will continue to see, but, perhaps, numerically less so than in 2022. But we will also have a leverage effect and EBITDA effect on our free cash flow.

Thank you, Victor.

Victor Ricciuti:

Thank you, Cirne.

Operator:

With no further questions, we turn back to the Company for their final remarks.

Fernando, please.

Fernando Cirne:

I would like to thank everyone, all our employees, analysts, shareholders, everyone who helped us during 4Q22 and also throughout the year and, also, I would like to thank everyone who submitted their questions.

Thank you, everyone, and we will meet again when we release the results for Q1. Thank you.