Conference Call Transcript
Locaweb
3Q22 Results

Gracielle Silva:

Hello and welcome to Locaweb's 3Q22 Earnings Conference. I am Gracielle Silva and joining me today are Fernando Cirne and Rafael Chamas, Financial Director and IRO. This event is being broadcast simultaneously online via webcast, which may be accessed at ri.locaweb.com.br. The slide deck will also be available on the website.

The information is available in BRL and was prepared according to the accounting standard adopted in Brazil, based on the statements, guidances and interpretations of the Accounting Statements Committee.

Before we begin, we would like to state that any statement made during this conference relating to Locaweb's Companies, business prospects, projections, operational and financial targets are based on beliefs and assumptions of its management as well as currently available information.

Forward looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions and that they refer to future events and, therefore, rely on circumstances that may or may not materialize.

Investors must understand that general economic conditions, the state of the industry and other operating factors may affect the Company's future performance and lead to results which are materially different than those expressed in such statements.

For our question and answer session, we kindly ask that you submit your questions via the Q&A button on the bottom side of your screen. By standard practice, your name will be announced so you can ask your question live. At that time, a request to activate your microphone should pop up on your screen.

Let me now turn over to Fernando Cirne, who will begin the presentation.

Fernando Cirne:

Hello everyone and welcome to our 3Q22 Earnings Conference. I would like to start by saying thank you to our shareholders, analysts and employees who helped us achieve the results that we will be showing you today.

Moving on to slide three, we have the highlights of 3Q22. We are still in line with the Company's budget results and I would like to state once again that this is very important to us. This is a target for the group, something we have established at the end of 2021 and now coming to the end of 2022, we are still keeping up with those targets.

Second, our customer base in e-commerce, including Tray, Bagy, Dooca and Bling continue to grow consistently in 3Q22 with 151.000 subscribers. This is important because it is the fifth consecutive quarter that we record consistent addition of new clients.

Then, we have been able to be consistent and really resilient in that sense. And this has to do with our marketing efforts, with the investments we have made in our products and the Company's willingness to not lose momentum as it invests in acquiring new customers. This has to do with the results that we are showing right now, which is our net revenue.

Our net revenue went up 45.5% between 3Q22 and 3Q21. Therefore, a very significant result. And when we talk about e-commerce, our net revenue has grown 87% quarter over quarter. And this is such a strong result that when actually year over year and when we compare that to the previous quarter, we come to 14%.

Another important thing is we are building an ecosystem-based business that is less and less reliant on GMV, so much so that we see in some cases GMV growing by a small share and ours growing by the tune of 45%, whereas our Commerce is growing by 87%.

This is a huge accomplishment, a huge achievement for the group. Because it is outgrowing the average for the group, Commerce is already accounting for 65% of the Company's net revenue. Bearing in mind that when we had our IPO accounted for about 28% and is now 65% of the group's net revenue.

So, two major achievements with regard to our margins are organic, EBITDA margins with organic improvements both in source and Commerce proved better in 3Q22. And the margins for the companies we have acquired are also growing consistently since 4Q21, 1Q22 and now into 3Q22.

Lastly, our ecosystem has reported a R$13 billion GMV, meaning we were better saying our role in the Brazilian ecosystem is increasingly more representative in terms of volume.

Moving on to slide four, here, as I said, we have our volume of paying e-commerce subscribers. Then, subscribers for Tray, Bling, Dooca and Bagy coming to 400.000 unique customers. This is consistent growth, which shows that the Company's business model is really solid.

A new indicator that we are reporting to the market now, which is the number of unique clients for the Commerce operations overall, not only just our platforms. In 3Q22, we came to 401.000 unique clients, which includes other operations such as Melhor Envio, Octadesk and so on and so forth. Therefore, 401.000 clients, a very significant volume as well, considering the Brazilian ecosystem.

And then, as I said, this increase in our Commerce subscriber base has grown consistently because the increase in subscriber numbers has seen no decline, as you can see since 1Q20, which would be our base equal 100. We really took care so that there would be no decrease since the economy was reopened after the pandemic and that is what we have done.

This is a huge accomplishment for the Company and as I said, this has to do with all of our marketing efforts and investments in our products.

Here we have our consolidated net revenue. The group's net revenue came to 304 with 65% of that net revenue coming from Commerce. As I said, we used to have 22% in 2020 and now we have 65%, so we expect to end the year with over two thirds of the Company's revenue coming from Commerce.

Here we have the rule of 40. This is a technique to measure high growing companies. This is the year over year growth added to the EBITDA margin. We continue to see that, in Locaweb, this would be the organic consolidated operations. Then, year over year we would see a 24% growth added to the adjusted EBITDA margin of 30% coming to 54%.

Another way of looking at that would be to look at our organic Commerce operation alone. So, we have a 60% increase in net revenue and an adjusted EBITDA margin of 37.9%, taking us to 98% rule of 40, showing that Locaweb is still growing at an accelerated pace.

Now, a little bit about our GMV. As I said before, our growth is not really linked to our GMV, but it is also a KPI that we keep track of. Thus, we saw an increase in our platform's GMV by 10% YOY, whereas our platform's GMV increased by 31.5%.

Now, that difference is precisely because we have encouraged our clients to invest more and more in their own marketing strategies. We have created and fostered interactions on social media such as Instagram, Facebook, TikTok, WhatsApp. We have been teaching our clients to be in charge, to take charge of their own marketing actions.

Therefore, the platforms GMV tend to outgrow that of our platforms. So, very significant when we look at our ecosystems GMV, here we are talking about the GMV in our marketplace transactions and marketplace interactions, which is significant growth when we compare that to other indicators across the market.

Now, a little bit of our acquired companies, looking at the two biggest ones. First, we have Bling. The GMV for invoices also grew by 38.4% year over year, going from 19.2 billion to 26.6 billion, so, material growth year over year. And in the case of Melhor Envio, we look at the number of tags that we issued from 4.8 to 5.2, but when we look at net revenue, we saw a 70% increase because of the change in our sales model in this business.

Now, another acquired company that we combined with our payment model. We are talking about a TPV increase by 70.4% from 747 million to 1.273 billion. Thus, growth of over 70% in one year.

That has been in part because of the synergies we have found within the group and the use of these payment terms by companies which are part of the group that has gone in 2Q22 from 327 to 369 million. Therefore, we are still investing in realizing synergies by using the group's payment method across the companies in our ecosystem.

Now, how do we see the margins of our acquired companies moving forward? The companies we are talking about, Bling, Melhor Envio, Squid, Vindi and Octadesk. These companies' margins will continue to increase because of their operating leverage.

The smaller companies. How do we see them growing their margin? I would like to give you a few examples. Bagy and Dooca, two other e-commerce platforms that we are working with, are already in a merger process. This will naturally allow them to grow their margins as well.

Ideris and Samurai, two e-commerce platforms that are part of the Tray Corp are actually being incorporated into the Tray Corp platform and will also share the same structures. Then, we are talking about savings that will allow them to grow their margins as well.

Lastly, the entire Commerce Enterprise structure will be launching a unique brand and all operations within that Commerce Enterprise structure will have a unique marketing structure and also a unique single channel.

These are gains and synergies that will allow for the margins of our acquired companies to continue growing over the course of 2023. This is just to give you a North Star, because we understand that margins will continue to grow over the course of next year, and this is what the Company is working on.

Now a little bit about integration. This has been something that we are working very diligently on. Integration has moved forward in a very fast paced way, and we have a structure that is dedicated to that, to develop that integration. This is not something that our business units are willing to being.

There is actually a department devoted to that. We have KPIs to keep track of each of these integrations, and we have several examples of these integrations and unique customer journeys within our ecosystem, which is why on the 18th of last month we had our first Investor Day, which showed in practice how this journey and how these integrations are working.

We had over three hours of video showing from the final client's perspective, from the store owners' perspective, where those integrations or how those integrations affect them. So, the product buyer, how does he see those integrations and how store owners can make their lives easier by making the most of our ecosystem structure.

I recommend you to go to our RI website and download those three hours of videos. These are long videos, but if you watch all of them, you will not be able to say that there is no benefit to that. So, I would like to invite all of you to take a look.

And lastly, ESG at Locaweb Company. I think there is a lot to unpack here. We are a great place to work, a certified great place to work since 2014. We are certified by FIA as an Incredible Place to Work since 2021. We have been acknowledged by Você S/A magazine, as one of the Best Companies to Work for six years consecutively.

And we have a social character at Locaweb when we talk about helping companies to grow and prosper through technology. We are talking about how companies can be found it and grow and develop by using technology. That is in our DNA.

We were named the third company in terms of ESG in the TMT ranking in Latin America among over 100 companies. This was a huge achievement for us. And to reinforce our commitment with sustainable development, we have launched our Social Environmental Responsibility Policy.

In 2021, we began to consolidate our ESG indicators across Locaweb Company and on October 18th, during our Investor Day, we launched our ESG report. And I also recommend that everyone download that, which shows in greater detail every item that we listed on this slide. Again, I think it is worth the read and it shows how Locaweb is committed to all of these practices.

Now I would like to turn the conference over to our CFO and IRO, Rafael Chamas. Thank you.

Rafael Chamas:

Thank you, Fernando. It is a pleasure to have all of you with us.

Moving on to slide 16, where I have a few of the highlights for 3Q22. Fernando has gone over a few of these, but I would like to reinforce all of them.

First figure, we had 300 million net revenue in 3Q22 alone, which accounts for a 45% increase year over year. The net income from commerce grew by 87% year over year in this period and another interesting thing to me is to compare the net revenue of Commerce with 3Q22 with 2Q22, and we had a 14% increase. Then, this is something that grew a lot in this period.

And one of those things that help to explain that the platform's subscriber base has grown by 32%. So, we have 151.000 subscribers, and our TPV went up 70%. Thus, we ended 3Q22 with 1.3 billion, which shows what a great engine for growth this is for the Company.

Another very significant highlight is our EBITDA margin. We ended 3Q22 with an increase in our year over year adjusted EBITDA margin and a 2.3 percentage point increase versus 2Q22.

I will be talking about this in greater detail, but we had an increase in organic margin in both businesses and both showing increase over the previous period, which is in keeping with what we have been saying for several quarters now, which is this allows us to see an increase in our EBITDA margins, both in absolute terms and in our margins.

We ended 3Q22 with an adjusted net profit of R$33 million. I will be detailing this later, but our net cash position was R$1.4 billion.

Now, digging a little bit deeper into the details, starting with our net revenue, the 304 million that I talked about in the consolidated and Commerce accounting for nearly two thirds of the operation, growing by 87% and our BeOnline / SaaS grew by 3.1%, ending this period with 106.7 and I think an explanation is due here.

You will see that organic growth has gone up. And one thing that happened with that was reduced growth. We made the decision in our corporate structures to slow this down, bringing in lower revenue, but looking for more profitable operations.

You will see the details of that when we look at the companies at bettering profit figures that this was a concrete initiative and allowed us to widen our margins very significantly.

Now, a little bit more color on what moved our Commerce net revenue and another concrete data about how healthy our platform has been in terms of profitability and growth. Of these 197.6 million in 3Q22, we had 118 with our ecosystem and 79.4 with subscriptions.

As you can see, the ecosystem revenue went up 130% and 46% in the platform subscription revenue. Therefore, this shows that growth has come from several different fronts as opposed to only platform subscriptions.

In nine months, this led us to ending this period with 835 million in revenue. That is up 50.7% versus last year and Commerce accounting for 550.4 million of that, so up 105%.

Now, about profitability, as I mentioned before, with more concrete numbers now. As you can see, all our three business lines have grown. Our organic Commerce operations ended 3Q22 up 37.9 margin, which is an increase from 2Q22, which was 36.1.

Our BeOnline / SaaS as I said, the other side of the increase in margins is lower growth and we are talking about 23.6% margin and our acquired EBITDA margin, -5.1. So, when we did our changes in 4Q21, the margin was -12% and every quarter we are seeing this curve go up and we ended 3Q22 with a -5.1 margin. Then, a significant increase when we compared it with 3Q21.

Now looking at absolute figures with what happened with the Company's adjusted EBITDA. As I said before, the 16.6%, which represents 50.4 million EBITDA, is a 50.2 increase in our EBITDA back in 3Q21 when we had 33.6 million. Thus, we increased our margin in our consolidated result and 50.2% increase over this period.

Our Commerce ended 3Q22 with 27.7 million from 16.7%, up 66.1, and BeOnline / SaaS up 34.4% to 22.7 million. So, an increase in our organic operations and operations, allowing our overall EBITDA to grow over 50% during this period, 3Q22.

Looking at our profits on the left, we had our accounting profit and, on the right, our adjusted profit. Bearing in mind that the adjustments that we are showing and there is an absolute conciliation of these figures and anyone interested can look in our release for the details, but we have the amortization of intangibles and the cash for that, particularly figures with four MM, which are adjusted for the forecast that we had.

Therefore, we had a loss of 71% in this period which took us to a profit by R$11.4 million in nine months. And when we look at the adjusted profit, excluding the M&A that we had over this period, we had a 33.4 over 3Q22 and 101.9 million over the year, so up 75%.

Lastly, our net cash position. We currently have 1.4 billion cash in our operations. Obviously, we have commitments that have been reported in the fair value, which now account for several million reais.

So, thinking about the net cash, with the better predictability that we have for the obligations will be settling the company's net cash discounting future profits is half a billion reais, 499.4. With that, I would like to thank you very much for listening and we will now open the Q&A.

Vitor Tomita, Goldman Sachs:

Good afternoon, everyone, and thank you so much for taking our questions.

We have two questions. The first question is about 4Q22. Could you give us a little more detail about your expectations for the Black Friday period and for the overall seasonal impacts of 3Q22 and how that could affect the margins that you have delivered?

The second question is about the increase in client education efforts. Could you give us a little bit more color about how that has impacted the purchase behavior of your clients, especially in terms of adoption and use of new solutions within the ecosystem?

Thank you.

Fernando Cirne:

Willians will answer about Black Friday and client education and I could also talk a little bit about the margins. So please, proceed.

Willians Marques:

Thank you for your question, Vitor.

Well, about Black Friday, we are already seeing our store owners making their moves. We see there is a lot of anticipation. We had a few initiatives to make banners available that are specifically related to Black Friday. We saw huge adoption. We believe that our customer base is really with great prospects and we see that the market actually in general expects better sales.

I think it is important to remember that our revenue is not fully dependent on GMV. Thus, we do expect to have a good quarter, but a large share of our revenue, especially when we think about subscriptions and platform, that is SaaS, that is software as a service. Therefore, it will not be substantially impacted by Black Friday.

Of course, we have part of the revenues such as payments and logistics, which may show some seasonal effect and that would be easy to compare if you look at last year, 2021. Then, we cannot give you any guidance about how much that growth impact will be, but I think that if we look at the previous years, especially when we look at organic growth, it will be easy to estimate what that impact will be.

Certainly it will depend on the macroeconomics factor. However, again, most of our revenue does not depend on GMV. So, this is really a limited result that will come as a consequence of this factor.

Now, moving on to your second question, education. We have been making investments, as was said earlier in our other Earnings Conference and in our Investor Day. This has occurred on several fronts.

In addition to education our e-commerce school, we also have our livestreams and webinars. We also invested massively on the platform itself, on the technology to have a new onboarding, as we showed during Investor Day.

Today, we have a very user-friendly platform. Thus, whenever users want to log in and start using the software, it is very easy. And then I think this was the main point of your question. We do see a few very interesting metrics.

First of all, we have been measuring the client's engagement with our onboarding tool, and we see that over 70% of our new stores take our onboarding process. They really look at those tips, so we have the engagement metric, which was low in the past but is now of over 70%.

And it shows that especially clients who were starting to work with us are using our onboarding tool. Those who do not use it are mostly clients that come with migration or those which are not really engaging and ultimately leave the platform.

Another metric that we have been seeing over the last few months, and this is an internal number so I cannot show you, but we are seeing, it is very interesting, it is the time of sales. So, with all the improvements we had in integrations with Marketplace and Facebook and Google, we are noticing that our clients are selling faster. Then, they set up a store and, in a few days, they had their first sales.

This is a very important figure for us. This is not publicly available, but I can tell you that we are seeing improvements. Therefore, our efforts on the onboarding side of our platform are bringing benefits.

Fernando Cirne:

Ok. To round up your first question, this is Fernando speaking about the margins.

You are right, the fourth quarter is one that does tend to push our margins up, especially with those operations that help what we call operational leverage. Thus, operations such as Melhor Envio, Octadesk, Vindi, they include a transaction related component and therefore they will be favored by the greater volume.

However, our commitment to our margins is more of a long term one. And I would like to talk a little bit about how we are seeing our margins growing not only in the fourth quarter, but over the course of next year.

We have a commitment to continue to widen our margins, not only throughout this year, but also in 2023 and 2024. Then, we have already been delivering consistently on our margins, but what we are seeing is our major operations will expand their margins with that operational leverage, which has already been taking place.

As I said before, these are operations that do not depend on the customer base and also for those operations where we are growing our base, such as Bling, for example, the base is growing and the margins will also expand because of that.

Also, we are streamlining our organization. Thus, I think this is the best word I have for you. Locaweb did acquire several companies. This is not a Company that is easy to understand by the market and so that simplification is not just about making it simpler to understand. The operational simplification will allow us to share cost structures and expand our margins as a result of that.

For example, Dooca and Bagy are merging. They will share their structure. Ideris and Samurai also are merging. They are in the process, actually. This is not a promise, but this is something that is underway. Right now, Ale Gil is working on that. We are already seeing that with Tray Corp.

Also, Commerce Enterprise will be a standalone brand with matrix structures. We know that Commerce and retail, this is not really a reality, even though in the case of Bagy and Dooca, that will be the case. But the concept of having a simple single network will become a reality.

So, we will have a single brand that will include the entire Tray Corps and Bling, so that will also generate a lot of savings in terms of costs and also increase our leverage on sales. Thus, this simpler organizational structure will really affect what we call gains of scale.

Therefore, if you simplify and you acquire gains of scale, that will be the driver for next year. Then, yes, we will see some effect of the holidays and Black Friday on 4Q22, but we expect that by simplifying a structure and leveraging our results, we will have long term growth.

And this is something that is already underway, as I said. I think we should break even very soon and will continue to move forward to have a 2% margin on our inorganic side.

Vitor Tomita:

Thank you, Fernando and Williams. This was perfectly clear.

Bernardo Guttmann, XP:

Good afternoon, Cirne, Rafael and team. I have two questions. The first has already been answered about the margins.

Now, my second question is about the competitive environment and making a link with the platform's churn rate. Because when we look at Locaweb’s churn rate, it is obviously natural that we see the so-called death rate, but there is also the churn caused by the competition.

Then, I wanted to understand what the competitive environment looks like, if there is any rationality on the part of other players. This is what I would like to know.

Fernando Cirne:

Willians, if he could please take this one, I may add to your answer later. Thank you, Bernardo.

Willians Marques:

OK, Fernando. Thank you for your question. Bernardo.

I think it is important to start with the figure that you mentioned by dividing our churn rate. And you are right, more than 90% of our churn rate in retail and these entry clients are coming from the mortality of projects, so about 90% and only 10%, in some months even less than that. These are clients that moved to a different platform.

And I think that the concept of migration and Commerce is very important in this case because it is complex for any client to move to a different platform. Thus, this affects both the positive side and the negative side for us. So, for the client to leave our platform to go to the competition will require them to rework their layout and reupload their product information.

Therefore, this is not a simple thing to do and it is even a sort of lock-in strategy. Then, we do not really lose that many clients. Hence, what we plan to do is invest in client marketing so that we have a strong lock in and we do see that happen in practice, as I said, over almost 90% of our churn rate is due to mortality.

Now, without naming names, we do not see any change in the competitive environment. Quite the contrary, we are seeing an increasingly favorable environment for our environment and our products, much because of everything that we have been developing. So, we have launched initiatives with the Big Techs, with Google and Facebook, and this is something no competitor offers and this is something we have been doing for several months.

We have marketplace integration, which is something no other competitor in the same size as us in retail operations does. We have operations with over 800 RPs and we see that our competition has much fewer integrations and apps. We have one competitor that has no local operations and is still not focusing. Their operations in Brazil have not been adjusted for the local market, no card with CPF and the option to pay via Pix.

Therefore, we see that the competition on the platform level is still very favorable to us, not because of its core, but because of the ecosystem that we have built and the value that we generate for, that we create for our clients.

Then, we see it very strongly in the acquisition of clients, as we reported a growing number of clients and constant increase in the number of clients even after the pandemic and I think that goes to show our strength in terms of client attraction acquisition.

Thus, that combined with difficult churn and difficult migration between platforms really works in our favor. I hope I was clear, but feel free to ask if you have any other question.

Bernardo Guttmann:

No, that was very clear. Thank you.

Fred Mendes, Bank of America:

Good afternoon, everyone, and thank you for the call. I also have two questions. I will try to summarize them in two questions.

The first of them with regard to BeOnline. You mentioned a change in strategy. If you could detail that change a little bit more, it seems really interesting and positive seeing as this is a business with a lower churn. But I wanted to understand it a little bit better.

And why was it that this change was not communicated before? I mean, you had a great Investor Day, but it was not in our minds, even in the back of our minds, that this change was coming. So, this is my first question.

My second question has more to do with the strategy in terms of the acquired companies and their margins. We understand that what we see in the spreadsheets is different from real life. But what we understood was that your acquired companies were already scaling their growth, at least thinking about Melhor Envio, and with that we should see an increase in margins. Quite the contrary, we saw those margins growing, but less so than we expected.

Then, I was thinking about what is it that we are missing? I wanted to understand what the trend will be moving forward. And if there is anything that we are not seeing or reading in the wrong way. Thank you.

Higor Franco:

Thank you for your question, Fred. This is Higor speaking.

I will start by talking about BeOnline and SaaS and then my colleagues will add to my answer. I think it is important to remember a few things. First of all, in our previous conference, we said that the margins for our BeOnline / SaaS operations are a lot closer to 20 than, for example, last quarter when it was 17.

In 3Q22 we moved to 23, which already shows our ability to stay within this mainstream margin, so to speak. And that is where our bets are being put and that is where our efforts are being devoted to expanding the BeOnline and SaaS margins.

These margins are made up of two components. First of all, this is a business that is highly seasonal, and that also reflects on our margins. This is a business whose costs over the year sees no behavior. There are contracts over the course of the year where renovations are sort of one off, which is why we see some fluctuation in that EBITDA. This is the component number one.

The component number two has to do with the change that we had in the profile of our clients. And to answer your question as to why we did not bring this during Locaweb Day, well, at that occasion, we wanted an agenda where we could open as much as we can about our strategies for our products, as opposed to how these products are performing in economic terms.

Hence, what we realized was there was an opportunity for a set of clients of larger corporate clients, and for that set of clients we could improve the margins, which means essentially to review our contracts, which is what we did over 3Q22. Of course, these are contracts that do not involve such a quick negotiation, and involve an effort that is really not simple.

Therefore, this is something we have been working on for a while and we were able to conclude, and I am referring to this set of clients whose margins were not within what we were aiming for. Thus, we have now concluded those negotiations and were able to adjust that during 3Q22. So, this is a work that we have been doing for a while now, but whose results only came during 3Q22.

Then, these really changes are expected margins for a few of these corporate clients. This is sort of the makeup of the margins that we see for BeOnline and SaaS for 3Q22. We expect to continue to pursue that strategy and in the medium term that those margins will continue to improve. This is something that we understand will appear in the long run, but we can never forget that the seasonal aspect will also be there.

Therefore, we may have a slightly lower margin than what we consider mainstream and there will be quarters such as this one when we will be slightly outperforming the mainstream. But we will always aim for a constant organic growth of those margins in the medium term.

I am not sure if I was able to answer, but feel free to ask more questions if you so want.

Fred Mendes:

Of course. I am sorry, if I could follow up, your answer was really detailed, but I just wanted to understand, considering that this structural change occurred and I understand the seasonal aspect, but at least those 16, 17% we saw in the last quarter that is not expected to occur again, regardless of that seasonal aspect that you already explained.

Higor Franco:

Well, Fred, it is difficult to set that in stone because a few contracts have more significance to our business. Thus, they have a greater weight. Then, I cannot tell you that we will never be under 20 again, but if we were to establish the medium over time, we will be further and further away from this level of margins that we saw last year.

Again, Fred, this is a business that has no pressure on margins. This is a business that generates a lot of cash that does really well on their margins. So, regardless of that seasonal aspect that I mentioned, if we look at a slightly longer horizon, we see that this is a business that is constantly delivering healthy margins.

Therefore, it is very difficult to set that in stone, but in the long run, we are extremely confident that this business will deliver very healthy margins.

Fred Mendes:

Perfect. Thank you.

Rafael Chamas:

Well, now that we were talking about margins this is Rafael speaking and already bringing the next question.

I think Fernando brought a few issues that help to explain that. Then, when you talked about the difference between a spreadsheet and reality, not to say that these are linear, but what we have been seeing in practice and what we have been detailing in our budget for 2023 makes that really clear.

Companies that are already at a healthy revenue level, we can already see some gains of scale. So, when we look at B2C, for example, we still see a trend in greater margins and we are talking about a significant share of our revenue and which are very strong as we make very clear. Hence, there are already positive margins in that sense.

However, there is another level of companies which are the smaller companies we have acquired which do show some cash burn. And in that case, operational gains take a little bit longer to emerge because of the investments in product and so on and so forth.

Therefore, all those initiatives that Fernando mentioned help us to take those companies that take a little bit longer to mature, to have gains of scale, and the sharing of resources and operational optimization tend to accelerate that process.

So, it is the combination of these two things that really make us confident that the group's margins will continue to grow.

Fernando Cirne:

Just adding to that, this is Fernando speaking. We could accelerate our margin growth. But for example, if your operation is doing well and Bling is a good example. Bling is doing really well. I mean, but could it accelerate margin growth? Of course, we could invest in marketing and in infrastructure, but is it worthwhile to increase cost in such an important part of the group?

So, you have to really weigh those two things against each other. Thus, you could have a business so much in the future and if I cut investment right now to gain a few points, a few margin points in a short term, maybe in a few years, I could have a much smaller business.

And I know that there is demand in the market for wider margins and we hear you and we are delivering wider margins, but as a manager, I need to look at the potential size of this business in two to three years. That is really important.

Therefore, we really have to put these things on the scale and look at margins without restricting that Company's growth for the next two or three years. And I usually joke that this is a trade-off that we have to do every day and that we need wider margins, but while still respecting the group's potential growth for the next two or three years.

Fred Mendes:

That was perfect. Fernando and Rafael, thank you very much.

Fernando Cirne:

Thank you for your question, Fred.

Marcelo Santos, JPMorgan:

Good afternoon, everyone. Fernando, Chamas, thank you for the opportunity.

I wanted to talk a little bit more about the BeOnline / SaaS issue that Fred mentioned. First of all, I wanted to understand, is this more about renegotiations at BeOnline? Is it the SaaS services? What package was being negotiated?

Second, with regard to structural widening of margins, if you have a contract that is going to continue over the next quarters and I do not want to hear what margin would be for the next quarters, but if we could think in general terms, should we expect wider margins considering those renegotiations and considering that those contracts will continue to be valid for the next few months?

Higor Franco:

Well, let me answer from the last question to the first. To your last question, yes, we do expect those margins, as I said before, grow over time and we could say that we do expect it to improve, of course, respecting the seasonal aspect.

So again, if we look at these margins over a longer period of time, of course we will see those margins improving, but there will be quarters when those margins will now be at or above their average growth rate.

And just to give you a little bit more color about our contracts, these are not regular SaaS contracts usually. These contracts that we renegotiated are corporate client contracts where we provide extremely high value, high value added for a number of corporate clients.

Thus, these are services where we have human resources, IT and technology and I, in some cases, can negotiate those contracts to expand our margins, but in other cases where I cannot renegotiate those contracts, I need to pass along those increase in costs to some clients and some of them receive that well and others do not, respond well or not.

Therefore, in a few cases, we did not move forward with those contract negotiations and we decided to not go forward with those contracts where the margins were not within what we understand to be healthy.

So, these are not SaaS contracts in the traditional sense. These are contracts with bigger clients and we have a range of clients that are reasonable that have these services with us and it was with this group that we operated more significantly.

Marcelo Santos:

You just mentioned the average, and my question is about this average. With this change, did that average change? Because I understand that before that would be 20%. Has that increased with the change in strategy or was it more that in 3Q22 you were at the top end of the range? I am trying to understand what exactly the average is and not what the next result will be precisely.

Higor Franco:

Well, we said last quarter that that average would be 20 and that improves from one quarter to the next, from last quarter to 3Q22, but I have to tell you that those 20 are still on the table and we expect to see that margin improve beyond 20.

I cannot give you any concrete figures because that would not be right on my part, but we tend to believe that, in the future, those 20 will no longer be 20, so to speak. We are still working to stay within those 20 because of the seasonal factor, but we understand that we can have better than

20 already.

Marcelo Santos:

All right. Thank you.

Higor Franco:

No problem. Thank you.

Thiago Kapulskis, Itaú BBA:

Hello, everyone. Good afternoon. Can everyone hear me?

Fernando Cirne:

Yes, we can hear you well, Thiago.

Thiago Kapulskis:

All right. Thank you for the opportunity to ask a few questions.

There have been a number of very interesting questions, but I wanted to explore a little bit more the margins, but not on BeOnline. I would like to go back to Commerce, which is where I at least see a higher demand for that.

If I could separate things a little bit, I have not been keeping track of the company for a long time, so I need to eat a little bit of humble pie. However, I am trying to think and I feel that there are several people confused about the fact that your client acquisition is going forward and there are people who think there should be an adjustment, but I think that maybe there is a better way.

And I am trying to understand if maybe we could separate the margins for the software business, where I see most synergies where you can deliver everything that you are talking about on an operational sense and the greater penetration of client acquisition, which is a very profitable profit, according to my experience of looking to those companies, those payment means companies.

Therefore, if we were to look only at those companies, excluding those payment companies, what would those margins look like from the integration that you guys are operating?

And then my other question is, how is Yapay's service doing in terms of penetration before the earlier payment of dividends in your competition? If you are seeing it going up or down. So how do you see that?

Rafael Chamas:

Thank you for your question, Thiago. This is Rafael.

We have a few things to say here. The platform margins, it is news to no one there at the end of the pandemic, when this took a dip, we lowered our organic margins, and here I am talking about our margins for our platforms, specifically.

Thus, the two structural increases in cost that we had at that time would encourage capturing new clients for the platform and obviously following the classic dynamic for the business and investing in items such as what Williams mentioned with the new onboarding tools, so investing in the platform itself.

Therefore, the margins for that moment were affected by these two strategic decisions which have to do with the perpetual lens of our business. And this has been going on for over one year, when we see those improvements, those seasonal improvements, as we have had in 3Q22, those outpaced those 35 that we had on our guidance for sometimes slightly below that level. And that has to do with transactional revenues. But we are seeing the margins stable.

Now, what is our challenge in this case? Much of this list of new products that we are offering which are integrated into our platforms, which are a way of upselling, they actually upsell on our clients LTV. This has nothing to do with the platform's margins that generate cash, but ultimately, it is about the client that comes from this shift in the economy that we can upsell, increasing their time with us and consequently their LTV. Thus, the ecosystem gains more relevance in the group in general.

Thiago Kapulskis:

All right. If you could talk a little bit about how Yapay has developed and how in terms of new clients, that would be great.

Rafael Chamas:

Of course. Just to remember, Yapay, now merging with Vindi, is a sub payment system and the revenue that we have are for payment gateways within our own platforms. And here we have very high penetration. We have about 70% of our entire TPV in store, TPV captured with payment.

So, this is one major driver of the operation, but we have been making it very clear that there is part of our TPV that comes from synergies. Now, what do I mean by that? With all of our operations, our logistics operations are doing software operations.

We have a lot of GMV that we could capture with those payments, with the software itself as a billing and payment software involving a lot of money. And part of that, which amounts to nearly 30%, this overall GMV that we have in payments, comes not from direct integration into the platform, not in e-commerce itself, but actually from synergies within the ecosystem itself.

Bearing in mind that this is also another profitable transaction. These are transactions that are taking place within our environment. Hence, the penetration in e-commerce platforms is very high at about 70% and a stable share for a long time.

And this also has a lot to do with the profile of clients which are using what is simpler to them, those SMB clients, and a good leverage that we had with the synergies across all of the group's operations.

Thiago Kapulskis:

All right. If I could have a last follow up. Within Yapay's clients or for the ecosystem in general, does a significant share of those are already having earlier transactions with you and is that share growing?

Rafael Chamas:

No, we have no direct anticipation with the client. We only have intermediation. This is the economic model that we have with Yapay.

Thiago Kapulskis:

All right. It is clear. Thank you.

Luma Paias and Leonardo Olmos, UBS:

Hello, everyone. Good afternoon and thank you for taking our question.

The margins discussion was very extensive, so I would like to focus on something else. If you guys could go back to the issue of early receivables payment and your financial results, you made it clear in the release and we have been discussing that for a while, but just to update us, it is gone up to 16 million.

Then, what are the factors affecting this advance and how do you see that figure developing in the next quarters?

Rafael Chamas:

Of course. This is Rafael again.

Thiago’s question was really opportune because it shows what the nature of these receivables is. So, just to remind you, this operation has been growing a lot and it is public knowledge that our operations have doubled in size. And to fund that growth, you need working capital because of the intermediation dynamics.

That is part of how the business works and it is strictly the Company's capital decision in terms of how to fund the working capital. That is where the receivables come for. This is what you mentioned before, the 15 million. And how have we seen that process moving forward if with working capital, the tendency is that we do not see higher investments.

Therefore, in percentage terms, these expenses tend to behave in a much shorter way because this will be diluted by the operation itself.

Luma Paias and Leonardo Olmos:

Okay. That was very clear. Thank you and have a great afternoon, everyone.

Operator:

With no further questions, we conclude our Q&A session and turn the conference over to Fernando Cirne for his final remarks.

Fernando Cirne:

I would like to thank all analysts for the questions. I think they really helped to clarify what we did not cover in the presentation. These were really opportune questions, so thank you for that.

I would also like to thank our employees, shareholders, analysts for the results that we reported. And we should meet again in a couple of months to talk about the consolidated results for 2022. Thank you so much and have a great afternoon.