Conference Call Transcript
LWSA
4Q23 Results

(Based on the conference audio and the Portuguese transcript version)

Operator:

Good morning, ladies and gentlemen. Welcome to LWSA's 4Q23 Earnings Conference.

Joining us today are the CEO, Fernando Cirne, and the CFO and IRO, Rafael Chamas. For the Q&A session, we will also be joined by Be Online/SAAS VP, Higor Franco; PME Commerce VP, Willians Marques; Commerce and SAAS Enterprise VP, Alessandro Gil; and Financial Services VP, Cassius Schymura.

This conference is being streamed online via Zoomcast with simultaneous interpretation into English and will be available for replay at ri.locaweb.com.br. You can download the slide deck for this presentation at the same website's result center under the financial information tab.

The reported figures are denominated in Brazilian real and have been calculated in accordance with Brazil's standard accounting practices as per the statement guidelines and interpretations issued by the Brazilian Accounting Pronouncements Committee.

Before moving on, we would like to mention that the statements contained in this document regarding LWSA's business prospects, operational and financial forecasts as well as future growth estimates are merely projections and, as such, are based solely on its management's outlook for the business.

This outlook relies heavily on market conditions, the performance of the Brazilian economy, the industry, and international markets, and therefore it may change without prior notice.

Unless otherwise stated, all variations and rounded-off figures presented here have been calculated in million of Brazilian reais. This business performance report includes both accounting and non-accounting data, such as organic and pro forma operating and financial results as well as projections based on the Company's management's expectations. The non-accounting data have not been reviewed by independent auditors.

For the question and answer session, we kindly ask that you use the Q&A button located at the bottom side of your screen to submit your question. When doing so, please remember to state your name and the name of your company. As standard practice, your name will be announced so you can ask your question live. A request to activate your microphone will then pop up on your screen.

I will now turn over to Mr. Fernando Cirne, who will begin the presentation, followed by Mr. Rafael Chamas. Please, Mr. Cirne, you may proceed.

Fernando Cirne:

Thank you, Paulo.

Welcome to our 4Q23 Earnings Conference. I would like to thank all analysts and everyone who, in some way, contributed to the results that will be presented today.

Moving to slide three, I would like to start by talking about profitability, EBITDA, and cash generation during 4Q23. On the topic of EBITDA, our consolidated margin came to 19.7% in 4Q23. That is 3.7 percentage points higher than in the same period one year earlier. This was the widest quarterly EBITDA margin since the Company began its acquisition process.

Also on the issue of EBITDA margin, the EBITDA margin for the acquired Companies came to 10.2% in 4Q23. That is 22.1 percentage points higher than two years ago. The Company has been working steadily over the past two years to grow this margin since then and we increased that margin by 13 percentage points over one year earlier.

That was the result of strong operational leverage and the strong growth of most of the Companies we have acquired. This is something we really wanted. We had been telling the market we would work steadily to have these gains, and that is what we have delivered. Obviously, there is still room for growth, but we understand that these 22 percentage points by which we have widened the margin over the last two years were a significant gain.

Our adjusted EBITDA increased by 41.5% versus 4Q22 and 26.3% versus 3Q23, the prior quarter. Another important message is that we have been able to grow our EBITDA more than we have been able to grow.

Lastly, there is the cash flow point. Our free cash flow has outgrown our EBITDA. It came to R$84.3 million in 4Q23, which is 93.8% higher than in 4Q22. This is to say the Company is gaining more efficiency across its value chain, growing its cash more than its EBITDA, and growing its EBITDA more than its growth. That is the message we wanted to send to you during these highlights.

As for growth, our net revenue grew by 14.8% versus one year earlier, and overall, we grew 13.9% in 2023. Our e-commerce operation grew by 18.2% versus one year earlier, reaching R$243 million, and in 2023, it grew by 21.8%.

Moving on to slide four, it is very important to give you some context about this period when our profitability grew so much. We would like to add context to what we determined were four very clear periods since the Company had its IPO.

First, we had the pre-IPO period, which is a time when we were very much focused on the Be Online and SAAS operations. Those operations accounted for 80% of the Company's revenue. The company was growing less but with wider margins, and this was a time when we were taking our first steps in our e-commerce operation. This was prior to our IPO.

Then we had our IPO, and we began to see outstanding growth because of this movement on the inorganic side. We got to create a more powerful ecosystem, and we began to enjoy narrower margins because the margins of the acquired Companies were a bit lower.

Then we interrupted our acquisitions, and we entered the maturity period, which ended at the end of last year. That is when our ecosystem came to 20% of Brazil's e-commerce ecosystem. We worked on integrating all our M&As. We saw a substantial increase in profitability because of our operational leverage, and we were also able to streamline our brands and corporate structure.

Now, what do we expect moving forward? Well, we expect to continue to grow our profitability, and there is still room to grow our profitability. However, we are now showing the market that this is something we know how to do and are skilled at doing. We will also be accelerating our growth. We will talk about this a little bit further and also unlock some values within our ecosystem.

Moving on to slide five, it is also very clear how we are showing the Company to the market today. We now have a much leaner Company when it comes to our different journeys. We have four essential journeys, one of which is our old Locaweb with the Be Online/SAAS operation, and we have our three e-commerce journeys, which are the PME Commerce, Commerce Enterprise, and ERP journeys.

All while working with two essential cross-journeys, which would be our financial services journey and our logistics journey as well, but, in essence, we are talking about only four when talking about business journeys.

This is a lot simpler when you consider the number of Companies we have acquired. We have a much simpler Company with only four business journeys, and this is much because of the technical integrations we have accomplished and also a result of the brand simplification process we have been through.

This essentially sums up what LWSA looks like, and these are the journeys we will move forward to add value to our stakeholders and also grow the Company value as well.

Moving on to slide six. When we talk about growth, we did provide some acceleration, but again, it is important to remember that growth, while very important, also comes with EBITDA margins that are outgrowing our revenue growth and also free cash flow that is outgrowing our EBITDA. Of course, we want to grow, but we do not want that growth path to eat away at our EBITDA and free cash flow.

So we have a few avenues for that. First of all, the expanding TAM via Wake. This is a mature process that is expected to bring more revenue in the second half of this year, then pricing, we understand our suite of products, especially on the e-commerce side, may grow in value, we have been working on that since 4Q23, but there is still a lot of room to work on. This is a long-term effort, which is why I say that the impact of pricing on revenue will be incremental over the course of this year.

Just as on the cross-selling side, we have already done a lot on the logistics side, and it is working really well. This is another effort that should have an impact over the course of 2024.

And lastly, on financial services, we are still in the go-to-market period, so there is still a lot to do, but everything is very well orchestrated and well planned in house, and we should see the impact on revenue later in the second half of this year.

Finally, we have inorganic growth. We know how to do organic growth, and we have done much of what we plan to do, but I would say that right now is not a very easy time for us to continue to grow inorganically.

First of all, we have a very well-rounded ecosystem. We have no product gap to fill, so we are talking about acquisitions that would have to make sense concerning the size of the Company, that would have to be suitably priced when we compare to the size of the Company and they should also be compatible with the way we operate currently.

The Companies we have acquired so far are profitable. We are talking about 10% margin growth, so this is not a simple formula. We have never stopped looking at potential acquisitions, but at this point, any new acquisition would have to fall in line with these three points, which makes this not a simple move, but we have never stopped looking at it.

We have all of that working with continued investments in AI. We already have AI products that we have put out, and AI pervades not only our operational side but also has great potential to improve all journeys across our ecosystem, so we are very much engaged on the AI front, which will certainly help to boost our avenues for growth.

Moving on to slide seven, I just like to quickly go over a few of the company's operating indicators. Here we have our e-commerce revenue, which increased by 18.2% over the last year. That is broken down into subscription revenue and ecosystem revenue. Our platform subscription revenue was up by 22.5% and the ecosystem by 15.2%.

That was largely because of Squid. We are working hard to gain profitability in Squid. We did gain some profitability during 4Q23. This startup was one component that helped boost our margins by 10%, but it also came with the effect of making us more selective when it comes to less profitable contracts.

Therefore, our revenue from Squid was slightly lower because of that. We became a pick here when it comes to selecting our contracts and that had an impact on what we call the ecosystem revenue.

I would say that, in the long term, ecosystem revenues tend to outgrow those from platform subscriptions, and commerce tends to have a wider share of the ecosystem revenue. However, right now, when we are balancing out the revenue from Squid, we saw this dip, but we expect that to move up again in the medium term.

Moving on to slide eight, here we have our GMV from the ecosystem and subscriber base in the e-commerce operation. Our ecosystem GMV has grown by nearly 18%. We have reached nearly R$17 billion in transactions in 4Q23 alone, which is to say we had a substantial rate of the Brazilian e-commerce ecosystem GMV.

Lastly, the e-commerce subscription base reached nearly 200,000 stores. That is a very strong figure, and it shows how representative we are and how prepared we are for potential economic growth. This is not something we rely on, but if the economy accelerates, we will have nearly 200,000 subscribers who are poised to sell more. Not considering subscribers, we have 470,000 customers operating within our ecosystem.

Moving on to the last slide of our highlights, our own-store GMV grew by 23%, and it is important to point out the quarter-over-quarter increase of over 17%, which is, again, very representative. Obviously, this is a quarter where we had Black Friday and Christmas, but nevertheless, this is a very interesting figure.

Finally, in our TPV, which is our payments operation, we reached R$1.8 billion during 4Q23. That is a 20.7% increase year over year.

Well, that is essentially it. I think it is a sound overview of our operation during 4Q23. I think it is important to highlight the slide of our stages that shows investors the four different periods for the

Company. A lot has happened over the last four years since we had our IPO. It may seem like our strategy has changed, but in fact, it is very clear to us that we had these different periods: the acquisition period, the change in ecosystems, the maturity period, and now a time for growth and gain profitability.

Thank you very much for your attention. I will now turn over to our CFO, Rafael Chamas.

Thank you.

Rafael Chamas:

Thank you, Fernando. Good morning, everyone.

I will start on slide 11, showing you a few more figures. Fernando added some context, and I will now go a bit deeper. We ended 4Q23 with a net revenue of R$347 million. That is a 15% increase year over year, driven by commerce. Our commerce operation increased by 18%, ending 4Q23 at R$243 million.

Quarter over quarter, the last quarter is a strong one, given the season with Black Friday and Christmas, so 4Q23 was a strong quarter for us. We grew in commerce by 9% quarter over quarter, moving from R$224 million and ending 4Q23 with R$243 million in our commerce operation.

Moving on to slide 12. Fernando touched on the widening of our overall margins and also the margins for our acquired Companies. This is largely because of the operational leverage and increase in revenue, which becomes very clear when we look at the gross profit for the Company.

This chart shows the performance since 1Q22. We end 4Q23 with a gross margin of 53.7% for commerce and 47.7% in the consolidated, which is a 3.4 percentage point increase year over year. We also saw the overall consolidated result going to R$165 million, which contributes to what I will show you next, which is the adjusted EBITDA for our operations.

Moving on to slide 13, as I mentioned, we ended 4Q23 with R$68.3 million in EBITDA. That is a 41.5% increase versus one year earlier. On the right-hand side, the usual breakdown that we have to show you how our acquired Companies have performed over time. If you look at the yellow curve, the significant leverage becomes very clear.

In 4Q21, we reached -12% margin for acquired Companies and we increased nearly 22% in these four years coming to 10.2% positive.

It is important to highlight as well that both on organic commerce and Be Online organic terms, we see levels close to normality at sound levels, but the most substantial leverage is coming from the yellow curve, meaning the expansion in our acquired Companies, which moved from 2.8% to over 10% in 4Q23, nearly 7% over the quarter, which significantly contributed to this over 40% increase in the Company's consolidated adjusted EBITDA.

Moving on to slide 14, we have a little bit on some of our cash generation components, and Fernando touched upon this topic as well. We have been able to grow at a very sound pace, and there are a few important components to that. Significantly, one of them is Capex.

The Company's Capex has gone down year after year when, as a percentage of our net revenue, we saw it at 10.5% in 2021, 8.9% in 2022, and we ended 2023 at 7.8%, so, naturally, this has significantly contributed to the Company's cash generation.

On slide 15, we find another important component that helps us understand how the Company's cash flow works. The companies would provide funding to our operations or financial operations seen as a percentage of our TPV.

Last year, I mentioned that what we expected was for the Company to have something close to 0.8% as its regular level of revenue from receivables as a ratio of TPV was 0.8%, and we remain at that level, reaching 0.75% in 4Q23. This obviously significantly contributes to the Company's cash generation.

So moving on to slide number 16, that becomes even clearer here. We have a snapshot of 4Q23, the year at large, when it comes to operational net cash, Capex, and free cash flow, as Fernando said. You can see that, in 4Q23, our cash generation after Capex was R$84.3 million, which is practically double, growing 93.8% over the previous quarter.

We had a very strong 4Q23, contributing nearly R$80 million, and even in the year at large, we saw very significant cash flow of 52.4% over last year. I showed you two slides before the Capex, and here we can see the absolute values as well. There has been a relative decrease in continuity in Capex, which was at R$100 million in 2022 and remains the same at R$100 million in 2023.

So it is a Company that is stuck to its strategy of growing sustainably while continuing to keep its cash flow at a cell level.

Now, moving on to slide 17, I will talk a little bit about the performance of our acquired Companies and how that reflects in our earnouts. As we mentioned before, 4Q23 was an important quarter. Essentially, it determines the vast majority of the sums we have in earnouts, but, going step by step, it has significantly shown a positive aspect for us.

In general terms, our companies have grown. We saw Melhor Envio grow nearly 40% year over year, Bagy grow by 66%, so that shows we have grown our SME operations with great complementarity in the market, and also Bling, which grew by over 43% during this time.

However, it was not just about growth. Again, I should highlight our profitability both in terms of EBITDA margin and cash flow. We have done really well. Our EBITDA margin came to 10.2% with our acquired Companies and we have a few highlights here. This allowed the Company to perform really well when it comes to profitability and cash generation, and our acquired companies had a material contribution in that sense.

Now, a little bit about earnouts. We have this divided into two slides, slide 17 and slide 18. I will try to detail this as much as I can to make this crystal clear since 4Q23 essentially concludes the issue or most of the earnout issue.

Therefore, with the performance in 4Q23, we had a R$76 million correction in earnout paid, and this is not present value; this is the impact on our cash. From all earnouts, it should be R$756 million. One important thing to say is that out of this total amount, R$651 million is already definitive.

Many of our major operations, such as Melhor Envio, Bling, and Squid, have the payout sum already determined, so we have essentially R$100 million of these R$756 million still variable based on performance. Therefore, this is an important time for us when earnings are mostly definitive.

When we look at that from a cash perspective, and that is why I am talking about the cash impact, just to make this clear, regarding the R$756 million in nominal terms, we expect to pay R$560 million of that in April of 2024, that is 2Q24, with R$195 million left to be paid in April 2025, which is why I said that those R$100 million are left from the R$756 million.

Therefore, part of the R$651 million that has already been determined will not be paid in 2024. They will be paid in 2025, but the sum has already been set.

Now, on slide 18, another two important aspects about our earnouts. First of all, there is the accounting impact due to the corrections we had in 4Q23, and another very important aspect is the fiscal benefit that these paid earnouts bring to the Company.

So, first of all, the accounting impact. The snapshot of everything that we have to pay in 2024 is already definitive, meaning it has already been recognized in our forecasts in our income statement, so nothing else will be paid over this amount.

Secondly, for this definitive recognition, 4Q23 includes in its results a financial expense, which is an important component of the accounting losses for 4Q23. The net impact of the corporate tax of this correction was R$83.4 million in expense, meaning it had a negative impact on our profit. When we recognize the vast majority of that as a definitive sum, it means that there is little interest being levied on the future amounts.

Therefore, the impact in the income statement is about R$35 million when considering the amounts payable in 2025, which is a very different snapshot than what we had in 2023, where the bottom line was very much affected by the interest over these payable earnouts.

Now, with regards to the fiscal benefit, it is very interesting to note that mostly technology companies produce great fiscal benefits since much of the payment of their acquisitions turns to goodwill.

In our case, we are talking about goodwill from this entire crop of acquisitions since our IPO of R$2.2 billion, so a material sum from what we paid for these companies is turning into goodwill. That goodwill is about R$800 million in cash. Therefore, this R$2.2 billion goodwill will provide us with a benefit when it comes to tax payments for the Company.

It is important to say that this goodwill is not a set sum, but it is estimated for each acquisition, meaning larger companies entail larger goodwill. This is the case for Bling, which was our most highly priced Company. This goodwill is seized once the acquired Company is incorporated.

So, taking Bling as an example, which accounts for much of those R$2.2 billion, the goodwill for Bling will be seized once the Company is incorporated by its buyer, in this case, our holding, LWSA.

Therefore, in 2024, we begin paying those earnouts and, no longer having contractual obligations as buyers, we begin to integrate these companies, and consequently, we will be able to make use of this significant benefit, which is almost R$800 million in cash that will be generated once we begin those integrations.

Now moving on to slide 19. Once we have explained how the earnout topic works, this is how the Company's net cash will work. We ended the year with a net cash of just over R$1.1 billion. Looking at the Company's net cash, what we have is R$651 million in definitive earnouts announced with about R$110 million, which is in the dark red column of the slide, with performance-based earnouts to be paid in 2024.

The most important point is that most of the payable earnouts have already been determined, which is R$651 million. Therefore, we have an overall net cash of R$350 million already, excluding the earnouts, both those that have already been determined and the performance-based ones.

So with that, we move on to our question-and-answer session.

Thank you.

Fred Mendes, Bank of America:

Good morning, everyone. Thank you for the call.

I have two questions. The first of them is with regard to Wake. I know you just glossed over it, but what could you tell us more about it? What has the operation been like? Is there any significant impact? You mentioned most of that would come in the second half of the year. Anything more you could tell us would be very important.

Regarding Tray, you saw the increase between 3Q23 and 4Q23, but there is a seasonal impact in 4Q23, and 3Q23 had been a bit weaker. So I just wanted to understand whether the entire pricing effect has already been well rounded and whether you see no additional impact on Churn, I mean, is there any benefit to reap, or has all the work been done when it comes to Tray?

Thank you very much.

Fernando Cirne:

Hello, Fred.

I will turn over to Alessandro Gil to talk about Wake, and Willians Marques will talk about Tray. Thank you for your question. They are very important questions. So, please, Alessandro and Willians, take it over.

Alessandro Gil:

Thank you, Cirne, and thank you, Fred, for your question.

It is really important for us to give you some visibility into what is going on. As you know, there is a mismatch in our operations between booking and client reception. When it comes to booking, we came from a very strong fourth quarter.

We were able to obtain some very important brands, such as Inbrands and all the brands within that group, Via Veneto websites, and Shop2gether, which should be uploaded in the next few days, and we have a few other contracts coming into play during this quarter. Therefore, the actual result of this, which has come with excellent results from booking, is expected to have its effects emerge over the course of the year.

That is essentially what we have from our side. I do not know if Willians has anything to add.

Willians Marques:

That is perfect, Gil. Thank you for your question, Fred. Good morning, everyone.

Specifically about the pricing in Tray, in May of last year, we had a substantial change, charging the client for marketplace sales, and this was indeed a very interesting increase in terms of ARPU. We understand that the impact that we should have had has already been affected.

We lost a few clients in the first few months after the change, but that has now all been penciled in. We understand that, between 3Q23 and 4Q23, that movement has already tailed off. Our results in 4Q23 have to do with that. When we came to the holiday season in Black Friday, we were able to obtain higher revenue.

I would also like to say that we are always paying attention to different and new pricing opportunities. More recently, to give you an example, we changed the pricing of an E-Dom, which is our marketing intelligence product, and which leverages the Wake Experience product. With that, we were able to attain an 80% increment in our subscription revenue. Obviously, this is not comparable to the platform revenue, but there was an 80% increment there.

So we understand that a change in pricing should take place continuously. We believe that churning is very much controllable when we change our pricing according to how we believe our clients perceive the value of our tools. We want to deliver a solution that is fully one-step with the store, the marketplace connection, logistics, and marketing tools as well.

Therefore, I am not going to say there are no opportunities left, but this is something we are always looking at and making adjustments as we go, looking at current impacts as well as those you all mentioned.

Leonardo Olmos, UBS:

Good morning, everyone. Congratulations on the 4Q23 results.

I would like to talk a little bit more about your revenue growth in 2024 and 2025. What would those dynamics look like? One thing we really liked about these 4Q23 results was that the GMV versus the revenue from e-commerce were sort of walking hand-in-hand.

For example, the GMV for own-store grew by 23% and the platform revenue by 23%. The ecosystem GMV was 18%, while the ecosystem revenue was 15%. I have two questions relating to that.

First of all, regarding the relationship between these GMVs, does it make any sense for us to continue looking at them? Because if there is any upturn in the economy, we could see even higher revenue for Locaweb. That is my first question. Could we see the ecosystem GMV closer to the ecosystem revenue? There was this gap between 18% and 15%.

Lastly, the dynamics for SAAS/Be Online. There was an adjustment last year, and revenue essentially did not grow. The market usually adjusts that or corrects that for inflation. Do you believe that will be the course for you as well?

Thank you.

Fernando Cirne:

We see a very interesting 4Q23 in terms of GMV, and that is because of Black Friday and Christmas, but we continue to bring a lot via stores. So my first point is that the acquired Companies added a lot of operational margin, and this is something that has come to stay. That is the good news.

In January, particularly now talking about 1Q24, we are seeing a good booking for e-commerce enablers, which were bringing a lot of new stores in. So this should make the relationship you mentioned remain the same. If the economy improves, we will tend to see a variable related to the take rate.

Thinking of the subscription side, it has been relatively more stable because, since the economy lost steam, we have been able to bring in many new stores, and, as a result of that, there has been more stability and even an increase in 4Q23. We are seeing very sound and very healthy sales indicators.

What we wanted and what I think is a trend is the economic recovery, and once that happens, we tend to see an acceleration on the variable component, which is what we call platform, and also an acceleration on the take rate side.

If you look at the record, the take rate side has been increasing and should increase over time, following our international peers, which involve a larger variable component of the operation. That should be the long-term trend over time.

So I tend to see this with good eyes. I believe that we are building a very robust store ecosystem, and this should allow us to later accelerate the variable side of our revenue. I would say that this is essentially the scenario.

I know I did not answer you very directly, but I am giving you more of a trend-based answer. We are going to grow our subscriptions, but, over time, that should grow our variable side.

Leonardo Olmos:

So you would say that, at times when the macroeconomic situation is weaker, you have a wider base of subscribers, and, with the macroeconomic situation going up, you should have a higher rate coming from the take rate, but it is not that you will be charging more on the take rate. Is this the GMV going up, or would you say that is the percentage that will increase?

Fernando Cirne:

We do have variable aspects across the infrastructure, such as payment infrastructure, logistics, and even doms, so this variable component will allow the variable component of our income to go up. And we also have all avenues for growth, such as financial services, which will also affect the take rate.

Also, for example, at Tray, we charge a take rate on the marketplace, and that is also a variable component. And even Bling, where we have our marketplace franchises. That is another way to charge a variable component.

Therefore, every part of the system has a variable component where, when you have a higher number of transactions, you may charge more. So our ecosystem is becoming more aggressive in terms of when the client sells more. That will bring in higher revenue as the client sells more.

Higor Franco:

Thank you for your question. That will allow me to talk a little bit more about the segment and revenue at large.

You talked about the inflation proxy for this market. That is not a bad one when you look at the long term, but it is also not perfect when you look at the very short term. For example, quarter over quarter, there might be variations, and that is because it is a very consolidated market.

For example, if you compare our operations with those of our American peers, you will see that this market, even in the United States, is not growing or is growing very little. So this correlation with inflation is good when you look at the long-term horizon.

What happens in this market is that at times when the demand is weaker, the market sort of fights for a higher sum, which reflects on higher selling costs. Our purpose with this business, being very straightforward, and this is something I have been repeating over and over again, is to make this a cash-generating, profitable business. Therefore, we will not go into pricing wars because we believe that, in the consolidated market, this is a hurtful practice.

So our purpose is to continue to generate cash and improve the margins of this operation over time. Then maybe in a quarter, when the struggle becomes fiercer and we need to increase sales revenues, we decide not to join the fight, so I might tell you in one or another quarter that the growth was underperforming or underperformed inflation, and we understand that that is ok.

The American standard is actually experiencing less growth than what we have in Brazil, so our benchmark is still the same. We continue to believe that this is a consolidated market, but we also believe that we are actually outperforming our American peers over the last few years.

I do not know if I was able to answer your question, but this is what we had.

Leonardo Olmos:

I understood. In short, you may underperform one quarter or another, and you are prioritizing your margins. That is perfect.

Thank you, Higor and Cirne.

Farland Mendes, JP Morgan:

Thank you.

Could you give us a few details about the components that helped you in your organic margins for e-commerce during 4Q23 and then also the current levels of your organic margins?

And on the other hand, with Squid, I would like to understand a little bit more about the changes that have occurred. What clients are you focusing on, and what clients have you excluded? What is the sustainable level of your margins for Squid? Does that relate to the size that you expect this business to acquire?

Thank you.

Fernando Cirne:

I will answer the first part of your question and then I will turn over to Alessandro Gil.

We have enjoyed a very steady e-commerce margin. We saw a dip at the end of last year, but we were able to recover, and that was because of the increase in costs on the payment Company side. We were able to recover very significantly during 4Q23, especially because of our operational leverage, the costs of the operation, and operational cost control.

That is essentially because of the payment side. Obviously, this is a very helpful quarter because of Black Friday and Christmas., but this has been sustainable growth. We believe that this is a level of growth that can be sustained throughout the year and even increased over 2024.

I even told our investors during 4Q23 that we already expected to recover part of that decrease with cost savings/operational improvements. I think that is coming essentially from the payment side.

On the platform side, and now we are talking about Tray, essentially, growth should be slow there because our sales are doing well, but growing our leverage takes time. However, it should also come as well. In sum, it is mostly because of our leverage on the payment side.

Now I will turn over to Alessandro, who will be talking about the work that we have been doing on Squid, where we have already contributed significantly to our organic margin, but this will continue over the next few months.

Alessandro Gil:

Thank you, Cirne. Thank you for your question.

Squid works on several components in that sense. Firstly, there is not necessarily a slowdown but rather a change in our commercial model for some of our clients. Before, we used to internalize the revenue from influencers, and now, for a few customers, we are working with a mediation model. Therefore, the Company is still growing as a business, and these steps help us to grow our margins. So, in a way, our profitability is higher.

On another note, since the end of last year, we are now proposing a new organization for the Company. We changed our internal flow slightly, and we had an executive from Google called Julia Fonseca. Together with the rest of the team, we have been doing great work to accelerate our sales, improve our organization, and improve our flows because we believed and still believe that they can be seized and made good use of.

Looking at the longer term, we have invested heavily in optimizing our e-commerce platform, and that is sort of the great part within Locaweb. We are already seeing some results on Locaweb, and we are exploring that. This should really improve the e-commerce side.

Cristian Faria, Itaú BBA:

I just wanted to understand something about your release. You talk a little bit about a few integration initiatives that would even justify the recovery in your gross margin, some cross-selling, and process optimizations.

So I just wanted to understand that a little bit better, understand what you are doing, and also try to equate that with what you said about integrating that with your M&As. Do you expect your M&A strategy to accelerate moving forward? What could you tell us with regard to your strategy for those integrations? How can we expect that to affect your margins?

Rafael Chagas:

Hello, Cristian.

In terms of the integration process, Fernando showed you a chart with the simplifications, and I think the most important one was to simplify not only internally but also start rethinking the Company's structure to increase our focus on the client's operations. That involves operational mergers and also changes in the structure of our operations.

On Wake, we saw the merger of nearly seven companies, and, when I say merger, that is a complete merger, in other words, the extinguishing of prior brands, the integration of systems, system standardization, etc. We have several different systems, and when you integrate the companies' systems, you start working on communication and systems in an integrated way.

Again, looking at Wake's example, which I think is one that has been well established, all seven operations are now served by the same commercial team and the same sales pitch. So, when we talk about integration, that goes way beyond simply thinking of a product. We are talking about rethinking the Company's entire infrastructure.

Cassius, who joined us recently, has also helped us to rethink our entire way of serving our financial customers. Back when Cassius joined us, we had one credit operation, one payment operation, and one thinking of Banking as a Service with the digital account, and we were always thinking about our product as opposed to thinking about the client's needs.

Therefore, when Carlos joins us, we begin to rethink all of those products with a purpose, which is to help our clients with their financial needs. This was the first chapter in a long history of changes.

It is important to remember that a very important person also joined us in the meantime: Otavio Dantas. Ottavio worked in consulting for a long time, and he came in to help us in this process of unlocking value growth and thinking about the customer journey.

As I said, we want to be better equipped to streamline our processes and bring better profitability thinking about that simplification. So these are a few of the initiatives, but it is important to say that these are dynamic initiatives. We want to really rethink our entire portfolio with a focus on our clients and their journeys. That is critical for us to continue to evolve.

Operator:

With no further questions, we now conclude the question-and-answer session, and I turn the conference back to Mr. Fernando Cirne for his final remarks.

Fernando Cirne:

I would like to thank everyone who joined our call and all the analysts who asked their questions. I believe that they really helped to clarify questions that were in the air. I would also like to thank everyone who helped us achieve these results.

We had some very important achievements in 4Q23 when it comes to our margins and growth, which is really healthy. We have some important challenges for this year, but the Company is definitely on the right path and poised to start growing again. I think we have achieved very interesting margins, and more importantly, our cash generation has been substantial for our shareholders.

So thank you all very much. I am looking forward to meeting you again at our Earnings Conference for 1Q24.

Operator:

The LWSA's 4Q23 Earnings Conference is now concluded. We would like to thank you for joining us, and we wish you a great day.