méliuz

Conference Call Transcript
3Q23 Results

Marcio Penna:

Good morning, everyone. Thank you for being with us on another Méliuz's earning results webcast. My name is Márcio, and I am the Company's Investor Relations Officer. I am sure that not only me, but the management and all Méliuz's employees are very happy to present the 3Q23 results.

We achieved one of the main objectives of the year, which was achieving the Company's operational break-even. Now our focus is to grow sustainably, generating cash.

Our conference call will be held in Portuguese and simultaneously translated into English. To access this feature, simply select the desired language from the interpretation button located at the bottom of the screen.

Joining me at this conference are: Israel Salmen, founder and CEO of Méliuz; Gabriel Loures, Growth Director; and André Amaral, Director of Strategy, Shopping and Data.

Before giving the floor to Israel, I would like to inform you that this event is being recorded and, at this moment, all participants are in listen-only mode. After the presentation, we will then begin the Q&A session. To ask a question, simply click on the "raise hand" button.

Israel, the floor is yours.

Israel Salmen:

Thank you, Marcio. Good morning, everyone.

In the latest releases, we reinforced that we were beginning to reap the rewards of all the efforts made by our team, which were efforts related to optimizing costs and expenses. We came from a period of accelerated growth where we made several investments in the Company, in the team, in the product, and on several other fronts.

In recent months and quarters, we have seen this ratio of expenses, costs, and operational efficiency in general improve. We have seen this improving in recent quarters, and now it is clearer to everyone all the work we have done throughout this year.

Gabriel and André will talk a little more about our results, going into more details. At the end, we will be available to answer your questions. Thanks.

Gabriel Loures:

Thank you, Israel. In case some of you do not know me, my name is Gabriel, and it is nice to meet you. I am very happy to be here.

We have a conference every quarter, and it is always good to talk to the market, but it is especially good this time because of the results we achieved.

We achieved our biggest goal for the year, which was aligned with the market, which is the Company's operational break-even. We had already reached financial break-even some time ago, but in 3Q23, we reported a parent Company's EBITDA of R$4.8 million, reversing an operating loss of R$25 million in relation to 3Q22.

When we put it in the adjusted view, with the main line here being a one-off of employee termination costs, we see that we reached an adjusted EBITDA of R$7 million, reversing a loss of R$23.1 million.

In the consolidated view, when we see it in the adjusted view, we also reached the break-even point, reaching R$1.2 million versus a loss of R$22.6 million in 3Q22. From an accounting EBITDA perspective, we came very close to breaking even with R$-0.9 million.

The result we are seeing here comes from the effort of the entire Méliuz's team. We worked on all segments of the Company, from the revenue line to the gross margin line, and also the operating expense lines, in order to achieve this objective. I will also talk a little more about the main impacts.

When we look at the Shopping Brasil margin, we realize that we worked on some big levers here. I think the first of them is the commercial effort of building relationships with our partners, ensuring that we are able to grow the number of campaigns and the more profitable verticals in the business, such as Méliuz Ads.

This also shows the effort and the commitment of our partners to Méliuz, which greatly proves our results and the concrete value that we are able to generate for them.

I think the other big lever to increase the Shopping Brasil margin here was that we were able to be more efficient and smarter in distributing cash back without impacting the user experience, while, at the same time, ensuring that we optimize the maximum point of GMV sales as well as the business's gross operating margin, working very well in this elasticity curve of our business.

I think the third central point is to guarantee a good experience for the shopping user. These are the constant improvements to our product that we make and that allow us to reach this super significant state of 25% margin growth for Shopping Brasil in the annual comparison.

The other major lever, as Israel commented, is the reduction in operating expenses. This one was made by a 100% effort from the teams, led by the financial team, but all the teams negotiated 100% of their contracts.

We guaranteed operational efficiency with our suppliers. On the marketing side, we ensured that we were working with a payback period within our strategy and optimizing these investments. And we also had to reduce our team size to adapt to the new reality.

In short, we are very happy with the results achieved. We arrived at a cost base of R$71.9 million in 3Q23, which is a reduction of almost 40% versus what we had in 4Q22 and a reduction of 17% versus 2Q23.

We have reached a new base here, a new level of operating expenses that is the result of all the Company's efforts. We hope that these results will be permanent and that this will be a new level of expenses here at Méliuz.

On slide five, we show the results of all this effort in these two major areas: the business's gross margin and expenses. We reached R$9.5 million in net income in the parent Company, R$7.6 million in the consolidated result, with variations and reversals of losses of R$8.7 million and R$9.1 million, respectively, in the parent Company and consolidated comparison.

These results allow us to have an even stronger cash position. In 3Q23, we managed to return to being a cash-generating Company and this is a consequence of the results of Méliuz, the parent Company and the consolidated result, but also of our financial results and the effect of receivables that we had in 3Q23. As we had also mentioned in 2Q23, there is a line of R$7.1 million in receivables, which is a specific type of revenue, that entered into our numbers in 3Q23.

On the whole, we came back to being a cash-generation Company. We grew over R$20 million in a quarter-over-quarter comparison, mostly because of the operating results of the Company. We will not stop here. This is just the beginning. We achieved the first goal that we had proposed, and we are very excited for the next steps.

Andre is going to go into details regarding our strategic focus from now on, but I would just like to talk a little about Black Friday. It could not be different because we are in November and we are very excited with the results we have seen so far. We believe we can have a very good Black Friday.

The first reason for that is our engagement with our partners. Comparing year over year, we see an increase of 30% in the revenue of Méliuz Ads, with 15% more partners participating, showing both the willingness of those that were here to keep on investing with us, proving once again our results, and also new partners that did not invest before bringing funds to Méliuz to have a very good Black Friday on their side as well.

The second big reason is the great innovations and great things we have done for our users in terms of shopping. In addition to the constant improvements, we have had conversions that have been improving. We launched new products this year, and the most recent one is the Méliuz Prime, which we launched in October.

Méliuz Prime is a subscription system that has several benefits for our users, such as double cash back in several stores, benefits on invoices, and purchase bonuses. This program guarantees that our partners will attain a more engaged base of VIP clients.

And on the side of Méliuz, we ensure recurring revenue that we do not have with our users yet. We also ensure an incremental GMV because we create new opportunities for them to gain in shops where they were not used to buying, so this is very good to us. At the same time, it ensures more frequency of purchases and cross-sells for other products.

Therefore, we are very excited about this product. The engagement of our users so far has been very good, and we believe it is only going to grow from now on. This is one of the reasons why our Black Friday will be very special this year.

I am going to turn over to Andre, who is going to talk about the structured ways of the midterm of Méliuz and our great focus from now onwards, now that we have reached the operational break-even of the Company.

André Amaral:

Thank you, Loures. It is a great pleasure to talk to all of you.

Sharing what Marcio, Loures, and Israel have said, we are very happy with the results we are presenting today. Once again, it is not only from 3Q23 but from this year in which we have been talking and commenting that we were directionally moving towards break-even, resuming the cash generation from the last cycle of investments we had in the past year, and also giving a bit more detail of what we expect from now on.

Gabriel mentioned very well everything we carried out and accomplished in 3Q23 and how we intend to continue leading the Company from now on in 4Q23 and 2024. I think we have four major pillars or principles that we will certainly keep focusing on, and we may expect to maintain all of them over the next year.

The first one is the maintenance of this operational efficiency. We may expect the cost basis to be in line with what we have been delivering in 3Q23. We have created a playbook internally that is very efficient to maintain this cost discipline. Our plan is to have it maintained constantly, so we should expect even more efficiency in the next quarters.

Second, obviously, resuming sustainable growth in shopping, so we should expect that as well. Something we have also been commenting on over the past year is maintaining the net take rate at, at least, 2%. We have been able to do this with great discipline.

As Gabriel showed, we have been able to consistently grow the gross margin of shopping, not only with the core product but also with additional revenues from new innovations we have been delivering, especially the Méliuz Ads and, most recently, a product launched a few weeks ago, which is Méliuz Prime. We are very optimistic regarding it.

This goes into the third block, which is the innovation of our core business. We have not stopped during this year, but once we clean up our cost basis, we should resume the innovation of our core business in full force, both in the shopping vertical and in financial services. This is something that we did not stop working on, but we should resume it with greater speed in 4Q23 and especially in 2024.

Several things have been happening in the shopping vertical. We should start seeing constant improvements in users and partners of Méliuz, in the parts of our app, in our website, and everything else. We are focused on making all of this communicate with new products and financial services that we should launch in 4Q23 and in 2024. I will give you more details about that on the next slide.

We have innovations that have been very important to our results, such as Méliuz Ads, which was already mentioned, Méliuz Prime, and all the derivations we can obtain from these two products.

And last but not least, the escalation of financial services. We have been talking about this since the strategic alliance with BV became public. In the first part of this year, we started making all the necessary integrations to get the product up and running, and we actually have the possibility of scaling not only accounts and cards but also the new products.

On slide nine, we can see what we expect to deliver, especially late this year and over 2024. To recap how we reached this far, we have been reinstating this in the past conference calls. In financial services, we spent practically the first half of the year making all the necessary integrations of Méliuz and Bankly with BV's technology structure to enable us to open Méliuz accounts on the BV structure and Méliuz card issuers with all the funding credit part of BV Bank.

As we announced in the previous conference call, once we concluded that in 1Q23, we started opening accounts at the beginning of 3Q23. We started issuing cards and opening accounts within this new structure, so 3Q23 was a pilot phase. We scaled up in a careful way, testing the account and card issuance progressively with the end users, and we were very successful at the end of 3Q23.

In terms of numbers, we reached almost 300,000 accounts opened with BV, and the first cards issued under this new structure of new models of credit were a bit over 20,000 cards in this pilot phase of 3Q23.

What do we have from now on? First, over 4Q23 and in the beginning of 2024, we will complete the drop of the legacy accounts, which are accounts opened under Acesso's structure, which was the financial institution of Bankly, and also drop the legacy cards we had opened previously on BV. And, with the trust of having moved over the pilot phase in 3Q23, we will continue to escalate account opening and card issuing.

Obviously, this is the core of where we are going to build our ecosystem of financial services. We have several products being developed, and we expect them to be launched in the next few quarters.

For example, new credit models, like PIX, bank slips and installment payments; our insurance hub, which we are developing and shortly we are going to launch new insurances; and the part of investments that we have started designing and building along with BV and Bankly to allow certain options that are quite interesting to our users from next year.

Now I turn over to Mario. He is going to talk about the development of the last stages of the deal between Bankly and BV.

Marcio Penna:

Thank you, André.

As we do in every webcast, to give you a panorama as to how our transaction with Bankly is going, we got the news from the Central Bank of the approval of the deal, and it was very good because the expectation was not to have it as fast as it was. With this, we expect to conclude our deal by the end of November because we have several bureaucratic transactions to do. Probably until the end of November, we should complete the deal and receive the money.

In the last board meeting, we decided and the board approved the call for a general shareholders meeting with the conclusion of the deal with Bankly. The meeting will decide on the approval of the capital reduction of R$210 million, which is actually part of the commitment of the Company.

We had already told the market in the first half of the year that the company's intention was to return the money that we would receive to shareholders, obviously after discussion by the board.

We fulfill our goal with great transparency, and we have a robust image of cash, even more now that we are generating cash, so with this amount that we are going to receive from BV regarding Bankly, we proposed this capital reduction to actually compensate our shareholders.

In terms of the regulatory process, as I mentioned, we expect to complete the transaction with Bankly by the end of the month. In early December, we should call the general shareholder meeting. It should happen by January.

Generally, having quorum and approval, which should be approved, we should wait for 60 days considering the corporate law, which states that the Company's creditors can claim access to the amount, which is not our case because we do not have any debt.

In this case, we have to wait for 60 days, and after this period, the capital reduction is effective. Therefore, the expectation of the company is that by the end of 1Q24 or early 2Q24, we should have completed all this capital reduction process.

With this, we close our presentation, and I now open the Q&A session.

Ricardo Buchpiguel, BTG Pactual:

Good morning, everyone. Congratulations on your results.

I would like to ask about two topics.

Firstly, looking at the difference between the consolidated EBITDA and the parent Company's EBITDA draws attention to the losses of the other subsidiaries. I would like to understand a bit when it would make sense to wait for break-even attainment in the subsidiaries and which measures and dynamics would help with that? I know it is a case by case thing because you have certain things in there, but if you could give me some idea as to what and how you move the pointer, that would help.

Secondly, I would like to understand the partnership with BV better. I understand you get a commission of BV by account and card enabled. On the release, you showed the value issued on cards and opened accounts. I would like to understand a bit more about this percentage of enabling cards in BV and if you could talk about the commission you get for each one of those products.

Thank you.

Marcio Penna:

Thank you for the questions, Ricardo.

I will answer the first question. The difference between the consolidated EBITDA and the parent Company's EBITDA tends to go to zero because we are improving results of the acquired companies. Therefore, the trend is to make both EBITDAs to be at a zero variation between them.

Today, we have this variation because of Picodi, which is one of our Companies that is burning cash a little. We also have the FIDC on our side of financial services within Méliuz, which is a process in transition because of our own products and the BV partnership, which impacts a bit the consolidated EBITDA in the lines of revenue and expenses, while in the parent Company it impacts the financial results.

In short, the variation in EBITDA between parent Company and consolidated comes from the impact that just one of them has on its financial results. That is why the parent Company is a bit better than the consolidated.

André Amaral:

I will answer the second question.

Firstly, I would like to go deeper into the Picodi situation, which Marcio mentioned. The other acquired companies are in the phase of cash generation, and Picodi, as expected, is in the phase that Méliuz lived in the first years of investment, which is the migration of the vertical of coupon to cash back.

So this was expected, but, even so, just as we invested the playbook of operating efficiency in Méliuz, we have been applying this in Picodi, and we have been improving the financial efficiency and operating cost reduction even though Picodi is still in the investment phase considering the growth migration that was expected at this time of the Company, just as we had at Méliuz some cycles over the last 10 years.

Moving into revenue financial services with BV, as I commented, the first quarter that we actually started scaling the account and card issuing was over 3Q23. We were in the pilot phase, and, together with BV, we were consciously and carefully scaling accounts and card issuing. We had a successful check in the scale test with users, and now what we expect is to get to sort of full speed with the accounts and card issuing.

We have several other accessory products that are as important as the account and card issuing for the growth and monetization both for Méliuz and BC in the vertical financial services.

As to the percentage that goes to BV, considering the privacy agreement that we have with them, we cannot disclose it because there are market values that we have negotiated at the time of the deal.

Ricardo Buchpiguel:

OK. That was clear. If I could have a follow up, I know it is in the very beginning in the partnership with BV, but I would like to understand if there is any sign that you can see regarding the quality of this client from the standpoint of risk and engagement.

I understand that you now see more ability to grow and scale your products, but it would be great if you could comment a bit on what the risk appetite of BV issuing more cards is.

André Amaral:

Regarding risk, since it is a young portfolio, we started scaling it up in 3Q23, so the first seasons are completing the third month, which is the main indicator. The first indicator we have is that the season is very good regarding credit.

However, as we have grown in a very careful way in 3Q23 in order for BV to see what the base was like and to start testing new policies, although we are happy with the results and considering all the market scenarios, we are still careful regarding credit.

So we actually do not expect much risk. Obviously, a credit decision is a final decision of BV. We work together, we exchange data, we provide a lot of information about user consumption to help in the credit decisions, but the final decision is theirs. This is very much in line as we see in the general credit market in Brazil.

We do not expect to issue cards in an uncontrolled way, so to speak, but we have evolved a lot in conversations about optimizing credit models in a very well-aligned way to ensure it grows in a healthy way.

Being the credit risk of BV, it is not in our interest to grow in a way that the portfolio cannot be financially steady, so we are doing it efficiently, ensuring gains for both parties.

Matheus Guimarães, XP:

Good morning, Marcio, Gabriel, André, and Israel. Thank you for taking my question.

Firstly, congratulations on your results. I am particularly surprised with the work you have carried out on the side of costs and expenses.

My question is more on the side of revenue. We have seen GMV being a challenge over 2023, not only to retail in general, but we see a slight reduction in the take rate. How should we look from now on? I think you have covered a great part of the cost and expenses, but should there be something ahead?

Overall, is the Company at the moment still very much focused on the cost side, or is it time to go back, look at revenue, and make it grow, or should we expect some quarters to see a more positive revenue dynamic?

Gabriel Loures:

Thank you for the question.

First of all, we have never stopped focusing on revenue. We are a relatively young Company and our goal is to keep on growing, generating more value for our users, having more users, ensuring greater retention of users, and achieving greater conversions at all stages.

We have actually been through cycles of more investment, as it was in 2021, and cycles of cost and expense reduction to optimize the financial results of a Company, as it has been in 2022 and 2023.

As André said, our focus from now on is the sustainable growth of our business. We want to ensure that we keep all expenses and costs under control while working hard to grow our business, our revenue, and, obviously, respecting the timing of the market in the two verticals: e-commerce, financial services, and credit challenges.

Our goal has always been to grow. Now the focus on expenses continues. We want to continue ensuring this base of expenses is under control, but our word now is sustainable growth.

Matheus Guimarães:

Super clear, Gabriel. Thank you.

Talking about Méliuz Prime, in terms of revenue recognition, how do you expect the evolution of it? Will this feature in the shopping Brazil line? You have the GMV component, but you also have the recurring revenue component. Do you have any expectations as to how to present the numbers for this looking ahead?

Gabriel Loures:

Just to comment on that, Méliuz Prime was not launched in 3Q23, so we do not have the results in the report. We have just published its launch in the 4Q23 accounting entries.

Marcio will answer your question.

Marcio Penna:

Most likely, Méliuz Prime will be on the line of shopping Brazil revenue along with the other items in this segment. Obviously, once Méliuz Prime gains representativeness in the results, we will provide more information. As Gabriel said, it is something that we have just started, so it did not impact the 3Q23 results and should not be very significant in the result of the fourth quarter. It will grow gradually.

Alexandre Namioka, Morgan Stanley:

Congratulations on your results. We were surprised by your achievements on the expense side.

The first question on my side is related to cash back. I understand that this kind of policy is more under your control. What caught our attention in the release is that a great part of the cash-back expense for 3Q23 will be booked for 4Q23. So I would like to understand how much cash back we should expect for 4Q23.

And along with that, I understand that there is a time mismatch dynamic. How have you seen the evolution of GMV over 3Q23? How do you see the growth or performance GMV in the 4Q23?

And then I have some other follow-up questions. Thank you.

Marcio Penna:

Alexandre, thank you for your question.

Your point on cash-back expenses is a good one. We noticed we had more incidents of GMV at the beginning of 3Q23 than at the end. Due to the mismatch, the expense fell into 4Q23, not 3Q23. In terms of amount, it is not very high. It is only R$1.5 million that is not in 3Q23, and it will be in 4Q23.

So the drop reduction in the cash-back expense is much more a result of our profitability strategy than actually the mismatch. The remaining amount that should have been in the 3Q23 and will be in 4Q23 is about R$1.5 million, so it is not very high.

Gabriel Loures:

To add to Marcio's answer, firstly, I just want to confirm if the question is about how we see GMV from now onwards.

Alexandre Namioka:

Yes. How do you see it in 4Q23 and, perhaps, taking some color of that you have in terms of outlook for next year? In the previous question, Matheus commented that we have seen some updates about GMV being quite pressured. How do we see it now and from now on?

Gabriel Loures:

First of all, we are in the fourth quarter, which is a period of stronger GMV. We expect that, and we have been working hard with partners and users to generate as much GMV as possible while still being focused on the margin and profitability of the revenue.

Our focus on 4Q23 will continue to be to ensure a net take rate that is healthier, above 2%, with a strong GMV, considering both the season period and the great innovations that we have been making in the shopping business.

We cannot share a forecast for next year, but what we can open up is a bit of what Andre mentioned. Our focus is sustainable growth in shopping from now on to ensure that we keep growing the business growth margin, and this makes the Company grow its growth margin.

Therefore, this will be the main focus of the Company from now on, both in 4Q23 and next year.

Marcio Penna:

Gabriel, I would like to add to your answer.

We have been carrying out studies to establish the budget for next year. As Gabriel said, we cannot give you guidance, but we can say that we got many market numbers, and we saw some banks considering growth of e-commerce in Brazil of approximately 8% to 12% next year, while some others consider 18% to 20%, so an average of 12% to 13% from the reports I have seen.

I would say that we are a bit more conservative on that matter, so our growth expectation for e-commerce next year is a bit below the market average. Obviously, what comes above that will be an upside, but even so, we will be able to deliver.

Without giving you numbers, because we cannot give you guidance, we can deliver an EBITDA volume that will certainly be very well received by the market.

Alexandre Namioka:

Still on GMV, I would like to understand whether you see some impact of Remessa Conforme on your GMV. At the end of the day, you operate with some marketplaces that are cross-borders and your GMV has a stake that is relatively significant. I think it would be interesting.

Thank you.

Gabriel Loures:

Obviously, this is a concern for our partners that do cross-border sales in a more significant way. We certainly have some of those partners in our partner base, but they are not as representative on the whole. However, we have seen them working daily to offset that in different ways. For instance, several partners are working with coupons that are much more aggressive, more aggressive prices on websites, more special offers, and also intensifying marketing.

So we have seen this move. On one hand, the Remessa Conforme impacts the final value for customers, but on the other hand, we see those partners moving to ensure GMV and the results. Therefore, these are two important factors, one for each side, but it is too early for us to say which factor will generate the final impact on the results of those partners.

On our side, these partners are a little representative regarding Méliuz as a whole, both in our GMV and our generated gross margin. Obviously, we have been working with them to generate as many sales and results as possible, as that is our role here.

Alexandre Namioka:

Perfect. I have a last question.

You have mentioned that some of your cross-border partners will be more aggressive in terms of discounts. At the end of the day, do you see your customers having more appetite in terms of spending more regarding coupons, CAC, or whatever it is to attract more GMV or decrease the impact of the tax increment on cross-border sales?

Gabriel Loures:

Without a doubt, yes. This is part of the value we generate for our partners. We are a performance marketing platform that ensures higher quantified, proven results. So in this scenario, with greater pressure on the sales volumes of those partners, surely we will become a channel that is even more representative and has a greater focus on generating results. I believe this indeed favors us.

We have been working very closely with those partners to find alternatives that enable them to keep the same sales level or even grow despite the Remessa Conforme.

Marcio Penna:

Since we have no further questions, I turn over to Israel for the final remarks.

Israel Salmen:

I would just like to thank you all for your participation and for your questions. I would like to say that November is a very special month to us, and it has always been. We are moving on to another Black Friday, and the team is really excited.

We see great demand for our products from Méliuz Ads, where partners gain more exposure on our website. Our partners have done excellent work. Therefore, we are very focused because this is a very important month for us. We hope to bring news to the next conference call.

Thank you all very much.

Marcio Penna:

Thank you very much, everyone. Our conference call is now closed.