

Conference Call Transcript 2Q23 Results

Márcio Penna:

Good morning, everyone.

It is a pleasure to be with you once again for another quarter to present the results of 2Q23. My name is Márcio Penna and I am the IRO of Méliuz.

This conference call will be held in Portuguese and simultaneously translated into English. All you need to do is to select the interpretation and your language. So select the preferred language by clicking on the interpretation button which is located at the bottom of the screen.

So, here with us, we have Israel Salmen, who is Méliuz's founder and CEO, Gabriel Loures, Growth Officer, and André Amaral, Strategy Officer.

This conference call is being recorded and, right now, all participants will be connected in listen-only mode during the presentation. And then, when we start the question and answer session, if you want to ask a question, please click on the raise hand button in English.

All our materials have been filed at CVM and are available at the investor relations website.

Israel, the floor is yours.

Israel Salmen:

Good morning, Márcio. Good morning to everyone. All analysts and investors, it is a pleasure to be with you.

Time is flying. We held the IPO in November 2020 and today I was thinking how many times we were together. These have been quarters of great learning, in which the Company has transformed itself in many ways.

There were several M&As, and we have improved our shopping area over the last few years as well.

This is a time when we will be focusing on the Company's operational efficiency and the cycle that I talk about a lot very often. We always have major growth cycles in our nearly 12 years of life and some efficiency, which is happening in the first half of this year.

The team is very focused on this mission. So you will notice that what we are going to say today is an update of everything that happened, but we are still saying the same, which is to increase efficiency, reduce costs and expenses, negotiate with suppliers, and improve our products so that we can do much more with less resources, for example, in marketing.

Therefore, the Company is on the right track. I talked a lot about having control of everything and this sense is increasingly more half of this year. We are going to start to bear fruit of everything that we did in the first half of the year, and there are a few highlights.

Number one: we signed the SPA with Bankly. Bankly is on the next phase of approval for the Bacen and Cade. In terms of Cade, last night, just after we published our results, we got the news of Cade's approval, so I take this opportunity to share this news with you all.

We just need to conclude this is another phase for the Bacen, the Central Bank of Brazil, for us to conclude the sale of this asset and continue focusing more and more on building an asset-light business model, focusing on Méliuz and other companies of the Group.

Number two. Another accomplishment in the first half of the year was that we started obtaining value from our commercial agreement with BV. So we are already opening accounts and making cards directly with BV, and André will talk about the appeal of this deal and what we expect towards the end of the year.

This has been something very important that we did at the beginning of the year in order to stop doing financial services at home and, with the help of BV, which has great know-how on that, have the penetration of financial services in our current customer base.

Another thing that we did very well was to reduce expenses and costs, which have been falling quarter-on-quarter. The cost structure is much smaller and leaner, which allows us to continue investing in R&D and keep growing.

In the second half of the year, we will have the chance to make the most of the commercial agreement that we have signed with BV. We are going to start the second half of the year, which everyone knows is stronger for e-commerce not just in Brazil, and we are going to start a leaner cost structure and then we will reach the break-even point, which is our mission.

We will talk about that on Méliuz Day and, in addition to the break-even issue, we are going to provide a clearer vision of what to expect from the new Méliuz in 2024.

Without further ado, our presentation today is going to be led by Márcio, Gabriel and André. I will give the floor to them and then I will come back for the Q&A.

Gabriel Loures:

Thank you so much, Israel. It is a pleasure to be here.

My name is Gabriel. I am going to talk a little bit about shopping, both in Brazil and internationally. Subsequently, André will talk about BV and financial services, and then Márcio will talk about the financial aspects and the Company's EBITDA.

Regarding shopping in Brazil, we are still focused on optimizing our margins. We have done consistent work in improving our efficiency indicators of our core business and, once again, we have a quarter with an increase in the net take rate. We reached 2.3% in 2Q23 versus 2.1% in 2Q22.

The consequence of this efficiency work in all verticals is related to the margin of Brazil shopping, which went from R\$ 13 million to R\$ 19.9 million, growing 53% in a year, despite a 5% drop in revenue. So our focus is on improving the profitability and this result makes it very clear. This result is only possible for three reasons and now I would like to talk a little bit about them.

I think the number one is the value that we create for our partners in our core business, which allows us to have healthy take rates. In our relationship with partners that I managed to get with the commercial team, it is very clear to all of them, in all our conversations, the importance of Méliuz to generate qualified sales at low cost and sales that really change their performance.

Méliuz's platform is highly competitive in a scenario that is increasingly more crowded, with many companies going into the digital channel, which increases the prices of traditional media and, within this context, Méliuz is a very efficient platform with good quality and low cost sales. This is very clear in all the conversations that I have with our partners.

I think that the second main reason that allowed us to improve the profitability of our shopping business is the renewal of our shopping core business, which is two different things.

The first one is small innovations and dozens of adjustments that we make every day, which improve the flow and conversions, providing us good conversions, the best experience possible for our users and the best sales for our partners.

Finally, the second part is about new modes of business, new ways of presenting our product, and creating revenue. So, in terms of Méliuz Ads, I think that we are growing significantly. This is a vertical business that generates exposure and sales to the brands, once we show our users and increased exposure to our users of each one of our partners.

Another example is the selected offers. These offers are selected by the community, making sure that the products are relevant to our users because they choose the products that are going to appear at the top.

We have campaign calendars that help reduce the seasonality of e-commerce in general. So we create Méliuz dates that help balance the seasonal drop in shopping in the first half of the year and that generate a quite relevant revenue increase for our partners in these exclusive Méliuz dates, in addition to other exclusive campaigns and business models.

And number three is what supports all others. We have been talking about our margin and cash back optimizations and everything that we do with the cash back percentage. We also have been talking about the reduction in marketing investments.

And what we see on the other side is our users that keep buying with optimal experience to buy and generate value with cash back, with the pleasure of gaining more and more gifts, which makes it possible for us to do all the work of margin optimization while revenue drops by just 5%. This is evidence of the value that we create for our users.

Talking about our international shopping business, this is a slide that is really nice. That goes through our minds like a movie. Talking with our team and everyone who was here already in 2014 and 2016, we can see that Picodi is very similar to what Méliuz was back then. Picodi is a business that is growing very fast in terms of cash back .

So when we see the total number of buyers, we notice an increase of almost threefold from 2Q22 to 2Q23, which is almost equivalent to the net revenue of our cash back operation. However, when we look at the financials, these numbers are not yet reflected in our bottom line because of a replacement of the legacy coupon operation, which we have been talking about for a long time and is our objective.

This coupon revenue is replaced by a cashback revenue that has much more quality because this is revenue that comes from users buying again and again and that becomes a recurring revenue for Picodi. A consequence of this is that, as we add new users, Picodi's cashback revenue grows at a very high speed. This is very important for our business and we see a lot of value related to that.

We monitor two Picodi's basic metrics. Firstly, the number of buyers and the acquisition of new buyers, which has grown a lot from the 2Q22 to 2Q23. We reached the landmark of 2.4 million accumulated new accounts, which was much faster than we did with Méliuz in the past.

The second metric is user retention, which is very much in line with Méliuz and our history. With this metric, we can make projections that show that, as we include new waves of buyers on top of what we already have, there will be an exponential growth of Picodi's cashback.

So our expectation for the Picodi business is that it will grow more and more, become even more significant in the long term, and generate a significant geographical variety of our revenue origins, which gives us access not just to Brazil but also to other countries.

So that is it for the shopping business. Now I give the floor to André, who will talk about our financial services verticals and our partnership with BV.

André Amaral:

Thank you, Gabriel. Good morning, everyone. It is a pleasure to be with you again.

I am going to go over this page. As Israel mentioned, this is the current status of the partnership with BV, which we announced at the end of last year. We have overcome a few landmarks. During 2Q23, we finished signing the SPA, we submitted it to the regulation agencies in Brazil and we got the commercial agreement approved.

As Israel said, last night, we heard about the approval from the Brazilian Antitrust Authority, Cade, and now we are submitting it to the approval by the Central Bank of Brazil, which will take place in the next six or 12 months, as estimated by the regulator.

We also have the commercial agreement between Méliuz and BV that we had last year and this is what we had in the first quarter. We talked a little bit about this in our last conference call and we have attained some very important landmarks.

As soon as we signed the commercial agreement with BV Bank, we started the first developments at the beginning of the year. And just to make it clearer for everyone, everything related to the infrastructure of Méliuz's financial services still exists in the Bankly's Banking as a Service platform.

On the other hand, everything related to regulation affairs, we did the migration of the Acesso Bank, that is the payment institution, to the BV Bank, with the digital account, the credit card and other financial services that we are going to build from now on based on what we agreed with the commercial agreement.

We spent the first six months doing this migration and I think we exceeded our best expectations. We already had very good expectations in terms of what would be in the first phase of the project and, fortunately, we could work together in this practice of integration of the

technologies of the three companies and, even faster than we had imagined, we could make the new Méliuz-Bankly-BV operational structure.

So we did this along 2Q23. As we evolved in integrations, from most of the existing accounts, we started opening new accounts at BV Bank's structure, once we finalized 100% of the integrations, which happened on July 4th, 100% of the new Méliuz's accounts were then opened at the financial organization of BV Bank.

During the first half of the year, as we were doing the migration of technologies, we slowed down the opening of accounts. We did not invest in marketing because our focus was on the migration of technologies. Now we are going back to this growth, as 100% of the accounts are being opened at BV.

So thinking of July numbers, we already opened about 60,000 digital accounts at BV Bank. These accounts are still made with 100% organic efforts of our team on conversion, and we talked a little bit about this in our release. This shows our efficiency in the acquisition and activation of users in our internal communication channels.

In 2Q23, we reduced almost 40% of our market investment, which totaled less than R\$2.5 million, and this is less than R\$1 million a month. So, even though we reduced it, we could still grow in terms of accounts opened.

In the second half of the year, there will be a phase of migration of the accounts and cards that were opened until last year in the Acesso structure. These accounts will no longer be at the Acesso platform and will be migrated to the BV platform, so there is this migration phase that will take place during the second half.

I also want to mention the increase of the credit card portfolio. We have already started doing this in 2Q23, and now we hope that it will be at cruise speed in the second half of the year, as we have the BV team's help to escalate this operation. Therefore, we have been super successful with the users and the team. We are very excited in terms of what we will deliver from now on.

And one of the three main important points is the agenda of new products. You are going to hear more about that on Méliuz Day. We have ongoing conversations about other products and accessories to the digital accounts that are very important so that we can monetize the account even more and increase the LTV of our customers who have BV accounts.

Now, I give the floor to Márcio to talk more about the numbers of 2Q23.

Márcio Penna:

Thank you, André.

This is a slide which is a pillar, not just of this result, but for the year as a whole. We have been consistently signaling to the market that we are focusing all our efforts on reduction of costs and expenses, and here we can see ourselves collecting the results of what we have been doing since the beginning of the year.

Between 1Q23 and 2Q23, we have reduced expenses across the board, in all expense lines. We went from a level of R\$112 million in operational expenses in 4Q22, reducing 18% in the 1Q23, and reaching the level of R\$86 million in total expenses in 2Q23.

23% is a significant reduction. This is not just due to the management. We are not the only ones to get credit for this achievement, but rather, all employees. We revised all the contracts, negotiated with our suppliers and insourced some services, so everyone gets the credit for that because everyone really gave a contribution for us to get to this linear cost structure.

With this, we see an upside for the second half of the year. Certainly, this number, R\$86 million, is the basis for this period. Of course, as you know, there is a percentage that is a variable cost related to e-commerce revenue because of the cash back expense, but the fixed cost as a whole is from this level down.

When we see the parent company numbers, they are also significant. We went from R\$92.4 million in 4Q22 and we got to 2Q23 with R\$61.5 million, which is a 33% reduction in the first six months of the year.

So you can notice that the Company is really doing its best for us to have a better cost structure by the end of the year that should be a lot different and much leaner than we had in the beginning.

And obviously, considering revenue, as Israel already said in the beginning of our webinar, in the second half, we will be talking about revenue again because these cards and accounts that are being issued, as André has just said, will be compensated by BV.

We will be paid for each account and card activated, in addition to the fact that, in the second half of the year, the e-commerce is seasonally better, so there will be improvements in the second half as compared to the first half of the year.

Now, going to the next slide, you can see the bottom line and the Company's EBITDA that we said in the previous slide. Here you can see that the Company's efforts are being translated into numbers. If we look at consolidated numbers, we went from an EBITDA of R\$ -45.9 million in 2Q22 to R\$ -14 million in 2Q23.

We have not yet been able to achieve our objective, which is the break even, but we are very close to that. The reduction was not so robust as compared to the first quarter because of the seasonality. As everyone knows, the first quarter is usually weaker for e-commerce and retail as a whole, but the expectation is that, in the second half of the year, we will break even and then from next year on, we will be generating cash.

In terms of the parent company's numbers, we are even better. We went from a level of R\$ -46.4 million in 2Q22 going to R\$ -8.7 million in 2Q23, an 81% improvement in one year.

Regarding adjusted EBITDA, when we take out one-off events, we go in the same direction. We had a gain of efficiency of 77% in the adjusted EBITDA for the parent Company and a 57% improvement of the adjusted EBITDA for the consolidated numbers. So we are sure we will break even in the second half of this year.

Showing it very clearly, here we have the cash breakdown as compared to 2Q23. The first bar on the slide is the cash amount that we reached in 1Q23, which is slightly different from the picture you saw in our 1Q23 release earnings release because here we are excluding Bankly.

Throughout our entire release, we gave this disclaimer saying that since we signed the SPA with Bankly, this asset has become available for sale. Therefore, according to the IFRS 5, an accounting standard, we take it out from the Company's consolidated results and it is shown after the net income, in the balance in our earnings release.

So, excluding Bankly, we had cash of R\$422 million in 1Q23, and we reached the amount of R\$396 million in 2Q23. It is important to show that only R\$8 million is related to cash reduction due to the Company's operation.

All other cash reductions are one-off events. R\$7 million are one-off events related to billing amounts that we did not receive in the 2Q23 and we got in the 3Q23, so this has been already reversed. We also had other one-off events due to the signature of Bankly's SPA because we had to pay our legal and financial advisors, and, finally, we had the earn-outs of the companies that were acquired.

These one-off effects will probably no longer have an impact on the Company's numbers in 3Q23. So the reduction would be about R\$8 million in operation and it is likely to go to zero. Very shortly, this will turn in positive cash generation for the Company.

The next slide is about our very famous Méliuz Day. We started working on Méliuz Day. We really want to have an event, not just about our core business e-commerce, but also about our strategic partnerships with BV and our acquired companies. I think we have a lot to talk about Picodi, because its numbers are very good and we will be able to show you a little bit of this message on Méliuz Day.

So I want to invite you all to this event. We have not yet confirmed the date for our Méliuz Day because we still need to confirm the venue and time. It will probably be in the second half of September.

In this event, we will talk about strategy and numbers. Considering that revenue expense breakdown of Méliuz has been changing so much during the year, we think it is fair to the market for us to give you a basis in terms of expectation for this year and also the next one.

We will discuss revenue, GMV, expenses, EBITDA, ramp up of cards and accounts, Picodi, etc. So, as you can see, we will be talking about everything and we are sure that the market is going to like it very much.

And with this, I end the presentation of our webcast and now I open our Q&A session.

Ricardo Buchpiguel, BTG Pactual:

Good morning, Gabriel, André and Márcio. Thank you for the presentation.

I have two questions. In the first half of the year, excluding Bankly and one-off events, Méliuz had a loss of R\$20 million. Thinking about the target of break even in EBITDA, and the plan as a whole, it is implicit a positive bottom line per quarter of R\$10 million at least versus the R\$ -12

million in 2Q23. Does it make sense to expect that from now on? Do you think we are going to see a positive EBITDA in 3Q23?

Now, my second question. You talked about new products that may improve customer experience and even reduce the need for paid media, improving growth. In addition to the products that you have already mentioned related to financial products, should we expect any other new products?

André Amaral:

I am going to first answer your second question. Certainly, the main thing about the second half of the year, in addition to the shopping business results that, as Gabriel said, are likely to get better because of the seasonality and recovery of the market.

In the second half of the year, in terms of financial services, our flagship still is accounts and cards. We have started developing new projects that will be reflected in 4Q23, certainly ramping up the results over 2024.

So, in addition to accounts and cards, the new services will be seen in 4Q23, considering that we are already seeing the results of accounts and cards. We are issuing many cards and opening accounts and we will do this at high speed starting in 3Q23.

Regarding new products and services, we will talk more about them on Méliuz Day, but we have already initiated some developments. We have to conclude the insurance, some loan products with our partnership with BV, some investment products and another account accessory products. Therefore, the results of all this will be seen in 4Q23 ramping up next year.

Márcio Penna:

Ricardo, thank you very much for your question.

The goal is really challenging. You are right, that is it, and we are working on it. Remembering that our internal goal is, in the parent Company, to achieve the Company's operational break even, of course, excluding one-offs and so on. And yes, we are working on it.

The tendency in 3Q23 is to show better results than 2Q23, and even better than the first half of the year as a whole. Basically, that will be possible with increases in revenue. As we said, considering our strategic partnership with BV, we started opening accounts and issuing cards. There is a seasonality of e-commerce that will also certainly help us and we are still working to reduce costs and expenses.

Therefore, our internal goal, which is bold and challenging, remains to reach the operational break even point at the parent Company.

Ricardo Buchpiguel:

If you can allow me to ask one more question, which are the possible uses of the cash that you have today, considering that it will grow with the sale of Blankly once the Central Bank approves it?

If we take almost R\$400 million of cash and sum with R\$200 million coming from the sale of Bankly, you will have around R\$600 million and, as you said, the Company is very close to breaking even. When would it make sense to pay out to shareholders or would you use it for anything else for the cash that you already have?

Israel Salmen:

Hello, Ricardo. Thank you for the question.

We are at a very convenient cash status, and that makes us work here knowing what we have to prioritize and how to work calmly to be able to make the right decisions. At the same time, I have been talking to many investors, and I explain to them that, for us to get to this very comfortable cash position, we had to work hard.

We know how hard it is to get capital. We have not started just yesterday. It has been more than 12 years that we have been working very hard. Therefore, the IPO and follow-on were very important to have the good position that we have today.

And so this does not reduce the importance of keeping a robust cash. It is very important to make it very clear. However, there are internal conversations and we have been talking to our board about the use of this cash and a possible capital reduction fixed close to the sale of Bankly. We have been talking about that monthly on the board of directors.

On Méliuz Day, I want to have something more concrete, closer to a decision on this topic. In September, on Méliuz Day, we will talk more about that. But in short, yes, we are considering that.

The reason why we are not talking about an even bigger capital reduction than that with the board right now, it's because there are many other options that we are analyzing in terms of M&A, in terms of R&D growth in any other business line that is doing well and giving hints for us to continue to invest and generate cash.

This is the next chapter of Méliuz. I have this as my priority and I will be able to give you clearer information on Méliuz Day.

Mirela Oliveira, Bank of America:

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

I have two questions about Bankly, if you allow me. How was the standalone cash burn in 2Q23 and what we should expect in future quarters?

And the second question is related to one-off costs related to the Bankly transaction. Have they already been paid in full or are we going to see any impact on the future quarters?

Márcio Penna:

I will start answering your question. Thank you very much for your question, Mirella.

Bankly, as you are well aware, is an asset that burns more cash operationally, so to speak. The same work that we did and we are doing at Méliuz along the first half of the year, it started being done at Bankly in the middle of 2Q23.

So, according to our expectations, and here I am trying to not give you guidance because I am going to give you them on Méliuz Day, there will be a consistent reduction in Bankly cash burn along the second half. So, in 3Q23, there will be some cash burn but with a reduction, and if we look at the second half as a whole, the reduction is going to be very clear. I am trying to avoid numbers because I am going to save the numbers for Méliuz Day.

To answer your second question regarding one-off items that might affect our bottom line, I would say that the main ones dropped because we signed the SPA of Bankly. There are some amounts that might be due before the end of the year because, after the closing of the operation, we have to get the approvals of the regulation agencies.

So our advisors are still with us and they will be with us until the operation is completely finalized. Therefore, I would say that the main amounts, thinking in the next three months, or at least this quarter, are already paid. I do not see any major disbursements in 3Q22 due to financial and legal advisors.

Andrew Ruben, Morgan Stanley:

Hi. Thanks for the question. We have heard a lot about the increase of cross border operators in Brazil. I know you have done business with the likes of Shopee and Shein. I am curious about your view of how relevant this channel is, how the conversations are going and the extent that further growth in these platforms can be a driver for your Brazil GMV over the coming quarters.

Thank you.

Gabriel Loures:

Thank you very much for your question.

Yes, we have been monitoring very closely the growth of our cross border players. For example, Shopee and Ali Express are some of our major partners. They are important to our business and we are obviously working to bring other players in.

We see this with good eyes favorably and this competition in the Brazilian market is very important for a player like us that generates sales for our partners. So this leads to new marketing expenses, new sales. This is very positive for us. We have been talking and we have been negotiating with all of them.

Márcio Penna:

So we have no other questions for today. I talked a lot to analysts last night and this morning before the webcast. And so that said, now we move to Israel's closing remarks.

Israel Salmen:

Thank you, Márcio. Thank you all for your presence.

We are still very much focused on our objective. I think that we are on the right track. The Company has been reducing its cost structure and has been working on new revenue lines. Some of them were launched at the end of 2Q23, as for example, the partnership with BV in accounts and cards.

I think that everything else we said today about international shopping and other companies makes us very excited for the second half of the year.

The beginning of the year was difficult, and we had to implement major changes in our business after the announcement of the partnership with BV. So they were months of very hard work, but looking back in the last six months, its mission accomplished and our next mission now, as we have been saying, is to make the Company break even to start 2024 in the well-known margins that we had before our IPO.

Thank you all very much.