GetNinjas

Transcription - 2Q23 Results Conference Call

Operator:

Good morning and welcome to the teleconference Get Ninjas to discuss the results on the 2Q23. Here in this session, we have Eduardo Lhotellier, CEO and investor relationship and Lucas Arruda, CFO.

At this point all the participants are connected just as listeners and later we are going to start the Q&A session and then we give you further instructions.

We would like to inform that this teleconference is being recorded and simultaneously translated. Before starting, we would like to clarify that the declarations here during this teleconference about the business perspective, estimate and operational financial goals are based on beliefs of the board of directors and also the current information available. Future considerations are not guarantee of performance because they bring risks, uncertainties and premise because they are future events and the future unforeseeable general economic conditions, industry connections and other operational factors may affect the results of the company bringing results that are materially different from the ones expressed in future considerations.

I would now like to turn the call over to GetNinjas. Please, Eduardo, please.

Eduardo L'Hotellier:

Thanks. Good morning guys! Eduardo L'Hotellier, CEO and founder of GetNinjas.
Thank you for attending our Earnings conference call. I would like to start the presentation with a summary of the main messages.

We report net income for the first time after the IPO submission of 1.5 million this quarter, compared to a loss of 8.8 million a year ago and a loss of 2.1 million a quarter ago. Gross revenue this quarter grew by 19% compared to the previous year and remained stable compared to the first quarter, in addition to the 25% growth in our gross margin. The positive result comes from the operational improvements, combined with the increase in revenue and a reduction in expenses.

We reduced our cash burn by 66% over the last 12 months, it went from 41 million between two Q2 21 and Q2 22 to 14 million between Q2 22 and now. The focus for 23 remains on our growth, while maintaining efficiency and investments in marketing, generating cash by increasing the efficiency of processes and improving the platform, both for the client and for the professional.

As we always mention, we are the largest service marketplace in Brazil in terms of geographic revenue and number of services. They are present in over four thousand cities in the national territory. We hit the mark of 5 million professionals in more than 500 categories and we receive around 4 million requests for services per year. For those who are new to us, our model is super simple, the client requests the service, the request is transmitted to the professionals, the professionals pay to get in touch with the client to deliver their budget and the client chooses the professional that most suits you.

The main highlights of this quarter, customers made 1 million requests. It had a reduction of 13% compared to the previous year. This quarter, we focused more on the quality of these requests, which made more sense for the professionals, requests that were often the biggest ticket, the greatest value for this professional and that he would be willing to pay a little more. This presentation will show the evolution that we had in revenue per request. We reached the mark of 5 million registered professionals, a growth of 14% compared to the previous year, with 173,000 active, a little less than the previous year, also justifying a reduction in the number of requests.

Net income was 15.9 million, a growth of 19% compared to the previous year. Gross profit grew 25%, which demonstrates that the increase in revenue is also accompanied by an improvement in the efficiency of actions in our cost reduction. The main highlight was the net profit of 1.5 million compared to a loss of 8.8 million last year.

We also reduced the cash burn, which had 1.2 million in this quarter, compared to 5.8 million in the previous year and 2.2 million in the previous quarter. It is also worth noting here that it was a quarter in which we restructured the company and we had to lay off some employees and this restructuring has an impact on cash, payment, 13th, vacation, all provisions, which made us have a cash burn, despite the net profit we had in the period. Obviously, all layoffs are already provisioned for, so they don't affect profit, but they end up affecting cash by advancing these expenses.

We continue to receive a very positive evaluation from our users, reflected by our ratings on Reclame Aqui, which is one of the highest ratings on the marketplace in Brazil. Note on Google Play, both for pro and cli. Note from the Apple Store for both pros and customers alike, compared to several marketplaces, which is a difficult business to please both sides and we manage to build this company with an assessment, with a very high reputation.

Now we are on page six, we have reduced marketing investments by 22%, which directly impacted the volume of customers that we bring and we are working to improve this efficiency, improve our plans, improve our cost per acquisition, not just improve the cost per customer acquisition, but also bringing more interesting customers to our professionals. In this quarter, as I said, customers generated over 1 million service requests.

Well, as every quarter, the most relevant category for our platform continues to be renovations and repairs, painter, electrician, plumber. Several subcategories within this parent category, followed by technical assistance, domestic service and others that are a little longer tail.
We keep our recurrence in line, 57% of customers who made a request on GetNinjas are customers who had already made a request in the past, this number remains in line with

previous semesters. Our professional base continues to grow, our total professional base, reaching 5 million and the base of active professionals had a slight reduction compared to last year, but as we will show, bringing in greater professional revenue, greater revenue per customer.

Well, now I would like to turn the call over to Lucas Arruda, our CFO, to comment a little more on some of our operating numbers.

Lucas Arruda:

Thanks Edu.

Good morning guys! Pleasure to be here again with you. Moving on to page ten, where we show the breakdown of our gross revenue and the evolution we had. We already talked about this 19% evolution, I think it's worth reporting here that we had an even faster increase in lead sales. So it's through professionals leads, you have access to customer contact and we even had a reduction in the volume of expirations, because we see this as positive.

It means that the professional buys these packs of coins and when he doesn't use these coins, they expire like other service models, like airfare miles or something like that. So the fact that we are having fewer expirations means that professionals are using currencies better, so seeing more value, they are able to take advantage of their purchases. So we see a positive evolution, both in revenue size and in its composition, it has been improving. Then we increased 19% compared to the previous year, we are in line with what we had in the previous quarter.

Here is an important point where we say “wow, but if the volume of requests dropped, where did this increase in revenue come from?” and we show that the evolution of revenue, divided by the number of requests, so it would be revenue per request that we have here. It is important to highlight that this increase is not an increase due to the increase in the price of requests, but rather that volume that Edu mentioned, a better quality of these requests that we have been looking for. So here we can give an example of saying look, when a painter goes to buy a request, it is very different. If he's going to paint an entire house, if he's going to paint the entire 5-bedroom apartment or paint a small service, something he's going to do there in a short period of time. So this request has a greater value for our professional and we are also able to better monetize this request. We look for services that are more relevant, that have the possibility of generating more income for these professionals.

So, for example, a service from an electrician, a plumber who will do a big job, it has a higher value and also has a better price than, for example, furniture assembly, which is a small service. We have been working hard on this quality of requests. We have also been selling these requests better, not all the requests we receive we manage to sell. Sometimes there is not a great demand for a professional. We end up distributing these requests so that the customer can be attended to. So, this combination of a better look at the quality of requests, better sales and a better distribution of requests helps us generate more revenue for the same number of requests.

Looking at net revenue, it is very much in line with the evolution of gross revenue, but here it is worth highlighting the evolution of gross profit, which was an increase of 25%. It means that our margin improved from 88% to almost 93%, and where does this improvement come from? Our courses basically consist of operational activities to generate systems in the cloud, where we process all the information. We had some improvements in terms of negotiation, some positive effect of exchange variation, but it is also a lot of operational efficiency that we are putting here. This better volume even helps a little in the sense that we have a lower volume of processing, there are also courses here, for example, on SMS activation, where it reduces a better quality in this slightly lower volume that we have, it also helps the gross profit. So we see this improvement at the margin.

Our commercial expenses, which basically consist of investments in marketing, we are following the same trend that we have shown in previous quarters, with a relevant reduction compared to the second quarter of last year. We reduced the investment volume by 22% and it is important to point out that, even with this 22% reduction, the volume of requests we receive decreased by only 13%. So, we demonstrate this efficiency, where we have a greater reduction in the amount we invest, but what falls in terms of volume is not proportional. So that's why we've been working hard to be more focused on these investments, looking for the best combinations of regions and categories so that we can bring the best return on this investment and we've seen this positive evolution.

On the next page, 14, we show the evolution of these investments. We had an accelerated period there in 2021, we have been working on this since the end of 2021, beginning of 2022. We see that we are on another level here in 2023.

This metric here is quite interesting, on page 15 we show this marketing efficiency, where we are looking at the gross profit, which would then be the revenue minus the cost codes and this one also takes out the marketing expense to see this margin of contribution, if we can call it that. What was the contribution margin of what we are bringing to the company, excluding marketing costs and expenses and we are looking here at the first half of each year, where we see a very positive evolution. If we look there in 2021, the sum of this margin in the first half of 2021 was a negative margin. We ended up losing 4 million, so it was a very accelerated investment, which did not bring the proportional revenue for that.

We have been working on this already in 2022, where we see that we have moved to a positive revenue. We talk about a margin of almost 7 million, but in this semester of 2023 we get practically double the margin that we had in 2022. We arrive at almost 14 million reais of gross margin and it is a very interesting result . We are maintaining a revenue level with a better margin as well. So I think this is a point to highlight here when talking about investments and the efficiency of these investments, here is clear evidence that we have gained efficiency over time.

The other side, which we have also been working a lot on, a little more recent is the general administrative expenses, where the main component of these companies is the team, the structure that we have of people here. We made an adjustment to this structure, so we have a reduction, looking at the comparison of the first quarter with the second quarter, we already have a reduction of a little over 1 million, let's show a little ahead, because it was this adjustment in the personnel structure, but we already see a positive balance here.

Remembering that in the second quarter, as Edu commented, we still have some effects from this part of the termination. There were some things, they were already under pressure, but in general it is still a result that has a part of the quarter. This adjustment was made in mid-May, so part of the quarter has a full payroll and a larger team than we have today. There are some other specific impacts of this termination, so what we will see is in the third quarter, the payroll will already be clean and we will have a better base to be what we expect, the recurring expense from now on.

If we compare it with the same period last year, last year we had some non-recurring expenses, which we also detail and will show later on in the EBITDA comparison, but these non-recurring expenses, which were consulting projects , they ended up there at the beginning of the second half of 2022. So we see an even greater variation compared to last year. This impact is in the order of 3 million reais, more or less. So, this reduction that we have for the second quarter of 2022 was a larger payroll and a non-recurring expense, which we are already clear of these two things in the second quarter of 2023.

Here we show the evolution of the structure, so as I was saying, we had 240 people in 2022, we have 148 at the end of this second quarter and a variation is 90 and two people. We tried to optimize here and structure it in a way that we don't sacrifice the projects and developments that we are doing to build the future. So, these were difficult adjustments, but we are maintaining these developments, maintaining this structure and continuing to build new features, new deliveries that will happen in the coming quarters. One way of looking at this is that the level, the volume of people that we have dedicated to tech and product remains quite high, we are at the level of 40% and we are at 37% more here. It has already arrived when a person more or less already changes the level, but we are in the range of 40%, which is a high volume, which we continue to invest and bring these improvements to our solution.

Looking a little further at the result talking about EBITDA, we show adjusted EBITDA. We explain how we arrive at this number, basically from the EBITDA that we have, we make an adjustment with the grant of shares and the long-term incentive plan for the company and these recurring expenses, which were relevant in the second quarter of 2022, which no longer exist, so it already shows a cleaner adjusted EBITDA in this quarter, but to compare with last year, it is on the same basis of comparison. We are talking about -5 million in the second quarter of 2023, even with these adjustments, excluding, for example, this non-recurring expense, we had an adjusted EBITDA of -12 million last year, so there is a significant evolution, it dropped to less than half this year. Result of these improvements, of this moment of efficiency, of these operational adjustments that we have been making.

Comparing with last year and comparing with the evolution of this quarter and also with the previous quarter, I think it has a slightly more modest evolution, but we keep moving forward and improving. Here, Edu has already commented, but for the first time since the IPO, we are having a profitable quarter, with a positive result. So, if we compare it with what we had last year, there is an improvement of more than 10 million reais. We had a loss of almost 9 million last year, we have a profit of 1.5 million this year, so there is a positive evolution, but maybe even a closer comparison, compared with the first quarter of this year, which we it is there in a more similar structure, there is also a relevant evolution when we leave a loss of 2 million with a profit of 1.5.

It is important to point out that the financial result for this quarter, we are talking about just over 8 million, which is 2% above the result we had in 2022. So, if so, wow, does the financial result help us? Yes, it helps us, but this improvement, comparing 2022 with 2023, was much more a result of the operation of these efficiency improvements that we are doing than just depending on this financial result.

In the first quarter, we had those specific impacts that affected the market as a whole. So we have a relevant increase there, but the first quarter was less than expected, we understand that this result of 8.3 million is what we have here as the best reference and more current for the next quarters.

Here we show the evolution of net income, so there is this positive trend. We had a sharper second quarter in 2022, but we show the first quarter with a positive result.

To end here, the financial analysis part also shows the evolution of cash, so we have a much smaller burn in this quarter and even in the accumulated of the last 12 months. We went from a burn of 41 million reais between the second quarter of 21 and the second quarter of 2022. We reduced this by 66% to a burn of just 14 million reais. We have a positive outlook going forward.

Apart from this non-recurring effect that we had in the second quarter, plus the evolutions, expected variations, we believe that in the near future we will be a company that generates cash, we are confident about that.

That's the end of the financial analysis portion of the second quarter results. We have one more topic here that Edu will comment on.

Eduardo L’Hotellier:

Thanks. Well, we are taking a capital reduction proposal to the Shareholders' vote. What is that? In this quarter, for the first time, we presented a net profit of 1.5 million and we believe that in the next quarters there is a positive possibility of us continuing to make a profit. Therefore, it is interesting that the company makes a capital reduction. What is that? We will incorporate all of our losses so far, reducing, deducting from our share capital.

In this operation, there is no financial movement, it is purely accounting and no tax benefit is lost that the company may have with the accumulated losses. So this operation helps our share capital, it starts at 395 million, reduces it by 97 and after approval it goes to 298. Why is that? By carrying out this operation, the profits that the company has in the coming quarters can be used to buy back shares or to pay dividends. If we do not carry out this operation, we will need it soon, we would need to earn 97 million until we can use this profit for these two purposes.

So, this operation is a free option that the company buys. We have not yet defined what we will do with this future profit, if we are going to use it in the operation, if we are going to distribute or if we are going to buy back shares, but we increase our range of possibilities to carry out the operation that has no cost for the company, no loss for the company. It is an operation that needs approval by the Assembly, so it takes time, it was published yesterday and it takes time to be appreciated, but we, as management, believe very much that it is the best for the company and, obviously, we are open to the market to discuss any doubts they may have on this issue.

And then we have some points of attention until the last page. I think the most relevant point of attention is that there is no loss of tax benefit related to the accumulated loss of the accounting operation there. There is only no change in the distribution of values. Now at a loss, there is no cash impact and no economic right impact on the company's tax benefit.

Well, that's what we have to present to you today. Now let's open up to the Q&A section.

Operator:

We will now begin the Q&A session for investors and analysts. If you have any questions, please send a message through the Q&A, indicating your name, company and your question.

Please wait while we collect questions.

Júlio Coelho (webcast):

Hello, gentlemen. Congratulations on the historic result. Do you have an optimal number of employees for the company?

Lucas Arruda:

Good morning, Julio, thank you for the question. We understand that the level we have today is already an adequate level. We made these adjustments where we maintain this development and new projects for the future, so we continue to work on the evolution of the platform.

We didn't have any loss in operating activities, so it's a new structure that we've been working on here. If we have a different evolution, a more accelerated growth, we can rethink that, but today, at the level we have, we believe that it is already an adequate structure and that it should remain there for the next quarters.

Marcelo Santos (webcast):

This is Marcelo Santos from JPMorgan. I would like to ask two questions. What are the key initiatives that are leading to better request quality, which ultimately allows you to generate more revenue per request? Should the acceleration of growth that the company is focusing on in 2023 continue to come from greater monetization or is a reacceleration of service requests and active professionals expected?

Eduardo L'Hotellier:

Just correcting a detail of the question, Marcelo asked if there was a better quality of requests, not a greater quantity. So Marcelo, we have been continuously improving our forms, capturing requests. So we ask questions that are more adhering to what customers are looking for and with that we can better understand what the customer is looking for and the professionals, when they better understand what they are looking for, they can understand if that request is really the best request for them and are willing to pay a little more.

Also a relevant part of requests through paid marketing and this marketing we are constantly calibrating it, being more sniper to bring requests in cities, regions and in the quality that we need that our professionals prefer and with that we manage to have the greater number of requests attended by one, two, three professionals and with that we have a higher revenue per request.

We also have several policies that, when a request does not sell and we would have zero revenue for it, we give a discount to be able to sell. Is this discount well calibrated? If he has miscalibrated, we leave the money on the table. If it's well calibrated, we can do this better. So here is a mix of quality improvement, requests and less waste of bringing substations in regions that are already saturated and when there is a more optimized pricing of these requests.

Lucas Arruda:

Just complementing the first question here, but I think there is a very important point here that we are increasingly focused on with this granular view of the document. We have business teams that look at categories, that look at regions, so this deepening of our understanding, this knowledge to look at these combinations and know, for example, in which region and category combinations we need to bring more orders or even in those that we don't need to bring anymore. It is this more granular look that we are giving to the platform, including help in this adjustment, this calibration of orders, we give up some orders that were not interesting for us. This is a job that this team has been doing, this issue of calibration, supply, prices, distribution, there are several adjustments that we have been making over the last few quarters. So it's the thing that started now, but we see more and more the effect, the result of it and then I think the numbers are showing an improvement in the monetization of each request and most of the results are a lot of the effect of this work that we been doing.

Eduardo L'Hotellier:

And the second question is whether our growth will come from more monetization or more requests. I believe that we still have room to improve monetization and bring services that are more adherent to our professional. Of course, we are always looking for ways to bring quantity with quality, but if we choose one to focus on this year, the improvement in monetization brings a better experience, both for the client and for the professional, as well as lower costs, better optimization. We believe that the company owes him the most effort. It was what we did in the quarter, in this quarter and a half, that a drop in requests takes away our best quarter. I believe the strategy is correct.

Marcelo Santos (webcast):

Thanks. I have a third question, are there relevant expenses related to employee termination costs in 2Q23? What would be the approximate amount?

Lucas Arruda:

Marcelo, this is Lucas. This expense is around 1.2 and 1.4 million reais. That's what we saw in the second quarter, which we don't expect to be maintained, to happen in other quarters, but it's the impact that we felt in this quarter.

Operator:

There being no further questions, the Q&A session is closed. We would like to hand the floor over to Eduardo, so that he can make his final remarks on the Company.

Eduardo L'Hotellier:

Well, thank you all very much for participating in our earnings call. We had a quarter that we were very proud of, I hope we will be able to do this in the following quarters. Thanks also to the entire GetNinjas team for a very difficult time this quarter, company restructuring, we had to let go of incredible people who were with us for a long time, they were necessary moves for us today, from now on, to create a company with financial solidity and so thank you very much to all the current ninjas and all the ninjas that came through here and helped to get here. And thanks to all of you for your trust.

Hug. Thank you see you later.

Operator:

The GetNinjas conference call is now over. We appreciate everyone's participation and have a nice day.