1Q'23 Earnings Call Script

Script

Operator:

Good morning, everyone. And welcome to Semantix's First Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, we will conduct a question-and-answer session.

As a reminder, this call may be recorded. I would now like to turn the call over to Augusto Vilela, Semantix Investor Relations. Please go ahead.

Augusto Vilela, Head of Investor Relations:

Thank you. Good morning, everyone, and thanks for joining our First Quarter 2023 earnings conference call. Joining me on the call today is Leonardo Santos, our CEO, Founder and Chairman, and Adriano Alcalde, our CFO.

By now, everyone should have access to our earnings announcement. This announcement is also on our Investor Relations website. During this call, we will make forward-looking statements, including statements about our business outlook, strategies, and long-term goals. These comments are based on our plans, predictions, and expectations as of today, which may change over time. Our actual results could differ materially due to the number of risks and uncertainties, including the risk factors outlined in our 20-F filed with the SEC.

Also, during this call, we will discuss certain non-GAAP financial measures. These non-GAAP measures are not intended to be a substitute for our GAAP results. Please refer to our earnings release on our Investor Relations website for a reconciliation of GAAP to non-GAAP financial measures, as well as additional context on our key operating metrics. And finally, this call in its entirety is being webcast from our Investor Relations website at ir.semantix.ai. And an audio replay will be available on our website in a few hours.

With that, I would like to turn the call over to Leo. Leo, good morning.

Leonardo Santos, CEO, Co-Founder and Chairman:

Thank you, Augusto, and thank you everyone for joining us today. It has only been one month since we last reported results, which is a reflection of significant improvements we have made in our internal reporting processes. I'm excited to walk you through our operating results, discuss key developments during the first quarter and progress we've made against key growth priorities.

Jumping right into results, in the first quarter we delivered total revenue of R$40 million, as we continue to see uptake of proprietary SaaS, which grew 4% year over year, and a material increase in our gross margin as we saw a full quarter benefit from operating expense adjustments made late last year. Recall last quarter we had indicated that proprietary SaaS would decline in the first quarter due to non-recurring health data revenue, contract timing and the discontinuation of some non-core products. Against this backdrop, we are pleased with the modest growth in the proprietary SaaS business.

As we discussed last quarter, we have shifted our strategic focus towards growing our proprietary business while driving leverage through a balanced investment approach. Our Q1 results reflected this shift to higher quality revenue with a 35% increase in Semantix Data Platform, or SDP, which sits at the core of our proprietary SaaS offering. Combined with the adjustments to our cost structure, gross margins expanded 10% year over year, reflecting our culture of always seeking efficiency in our business.

I would now like to provide an update on progress we have made across key initiatives that are crucial to our success. These include: 1) Product roadmap development and innovation across our proprietary platform offering, 2) Enhanced capabilities and selective M&A and 3) Improvements in our sales motion and go-to-market strategy.

Starting with our product roadmap. Bringing disruptive, easy to implement technologies to market is a core tenet of our long-term growth plans, and we continue to develop capabilities around SDP, our proprietary, highly scalable end-to-end data and enterprise AI platform that enables organizations to extract value from data in a time efficient way. We have emphasized an agile and design-based approach across our product team, and this quarter we are pleased to make several announcements.

First, in just one month since the release of our generative AI product, we have received about 1,300 user requests to our platform. Reflecting the potential demand and interest in this innovative and cost reducing technology. Our team has been working in the addition of several new foundational models, improving code-efficiency to optimize GPU acceleration and abstracting away the complexities of applying generative AI in the business context.

Second, in the area of quantum computing, we launched a sandbox to pull and use data in simulations. We strongly believe that this technology has the power to transform computing by enabling faster, more efficient processing of complex problems that are currently beyond the capabilities of legacy computing.

Third, we are excited about our upcoming deployment of SDP Genius, a large language model framework within the SDP platform to improve usability, query response times and automate communications between teams. Importantly, SDP Genius incorporates feedback, giving us the opportunity to interact with, listen and build features centered on our customers' needs.

Fourth, within our Semantix Data Integration platform, we are improving our capabilities by launching an integration feature that increases security and user experience by hiding personal and sensitive data in transition, a high priority concern among our customer base.

Fifth, we have released a new module for financial institutions, SDP Financial, a purpose-built tool for complex analysis of financial product design, solving business problems by leveraging public data sets from the financial community – including the Brazilian stock exchange, credit bureaus and other banking sources. Aligned with our culture of developing solutions together with our customer, we are also implementing a customer advisory board, inviting key customers from different industry verticals to share feedback, design and test new features with us. We are excited to increase the level of collaboration with this specific customer cohort, allowing us to optimize our product roadmap based on customer needs. The first meeting of our advisory board will take place later this quarter.

Moving on to new capabilities around recently acquired businesses, we have a rich pipeline of new features announcements planned for our multi-generative AI platform, a byproduct of the Elemeno acquisition earlier this year, as well as new enrichments to our data marketplace. Looking ahead, we plan to continue and accelerate product development through a dual approach of M&A and leveraging our deep bench of engineering talent.

Finally, we continue to make progress expanding and improving our go-to-market motion. We have increased our focus on vertical selling, amplified our marketing and lead generation activities, and began the build-out of our indirect sales motion while continuing to build strategic relationships to reinforce our channel ecosystem. As part of this effort and supplementing recent key hires we have made across the organization, in the first quarter we announced the addition of Bruno Bonfanti as our first channel and ecosystem director. With more than 2 decades experience in direct sales and channel management at best-in-class companies including Google and Avanade, Mr. Bonfanti will be integral in the development of our global partner program, which we are relaunching today. Our program currently has over 70 partners who will now be organized into four groups based on their approach: Semantix Partner, Sales Partner, Implementation Partner, and Independent Software Vendor. This program is a key driver of our revenue growth strategy, and we expect to be a significant contributor in scaling the business in the coming years.

Reflecting on our progress since we increased focus on our core proprietary SaaS only one quarter ago, I am pleased with the interest level in higher-quality proprietary SaaS solutions and the material expansion in our gross margin profile on our journey to profitability. It is clear to me that we have chosen the right strategy for sustainable long-term growth and have right sized our cost structure without compromising our ability to invest for scale.

Lastly, feedback from customers and partners reaffirms that we are making the right adjustments to capture the long-term opportunity in front of us. As always, we are focused on what we can control, especially given the uncertain macro environment. That said, I remain confident in our ability to deliver profitable growth this year while meaningfully increasing our proprietary mix of business.

Now, I'd like to share a few key wins from the quarter that are reflective of our strategic focus and emphasize the broad capabilities of our platform.

First, a customer in the juice and natural beverage industry who is launching new products was seeking strategic analysis of the competition and markets they serve. This customer has deployed SDP to integrate internal and external sources in a centralized data lake, supporting areas such as market intelligence, marketing and product selection. We are excited to represent the company as their corporate data platform, and look forward to expanding our partnership and cross-sell additional services.

Next, an asset manager who already uses our solutions targeting the financial vertical has expanded their SDP employment as they build a fintech as a service offering. This customer is leveraging our proprietary SDP solution to connect several partners in the credit industry, automating credit analysis and back-office functionality.

Following up on a few customer cases we have mentioned in the past:

We are pleased to announce that a contract to monitor streetlights in São Paulo has resulted in several million reais in electrical cost savings, with the project recently being extended to traffic lights, highlighting our land and expanding sales motion.

Lastly, an existing engagement with a major agribusiness company that built an SDP-based solution to provide analytics and insights to farmers that buy machinery has decided to showcase our joint offering at the largest agribusiness fair in Latin America, providing broad exposure that could lead to additional opportunities.

With that, I’d like to turn the call over to Semantix’s CFO, Adriano Alcalde. Please, Adriano?

Adriano Alcalde, Chief Financial Officer:

Thank you, Leo, and thanks everyone for joining us. I will start by reviewing our first quarter results and then move onto providing guidance for 2023.

Despite the economic uncertainty, companies are broadly moving forward with their data and AI projects. Against this backdrop, we delivered modest top-line growth of 1% year-over-year in the first quarter. We highlight 17 customers contributing more than R$ 5 million, or $1 million US in the last 12 months.

Third-party SaaS revenue performed in line compared to the first quarter of 2022, but with a gross margin expansion of approximately 17 percentage points year-over-year to 27%.

Our growth was driven by proprietary SaaS, the core of our scalable end-to-end data analytics platform, which grew 4% year-over-year in Q1. Recall we had anticipated a year over year decline in proprietary SaaS. Within proprietary SaaS, SDP continues to scale, which was offset by the discontinuation of some non-core products, contract timing and some non-recurring health revenue, which Leo previously mentioned.

Growth in Proprietary SaaS and the benefit to our cost structure following our Q4 restructuring drove meaningful improvement to our gross profit, which increased 33% year-over-year. We delivered a gross margin of 43%, an increase of 10 percentage points year-over-year.
Moving to operating expenses. We remain highly focused on improving the leverage in our business while being mindful of our investments for growth.

Adjusted SG&A net of merger-related costs and stock option plan and other non-operational expenses grew 63% year-over-year in the first quarter. The increase in SG&A was due mostly to our investments in sales and marketing expenses as we reinforced our go-to-market approach, as well as our R&D expenses, directly related to the evolution of our products.

Adjusted EBITDA loss for the first quarter of 2023 was R$34 million, reflecting a gross profit of R$17 million, which was offset by the SG&A due to the reasons I just mentioned.

As of March 31st, we held a cash and cash equivalents of R$232 million. Note that during the first quarter we paid a total amount of R$10 million in banking loans and R$25 million related to our recent acquisitions. As of March 31st, we had $6 million remaining in our share repurchase authorization.

Before offering guidance, I’d like to share some thoughts on the near-term environment. As we highlighted in our product discussion earlier, we plan to keep innovating and investing for the opportunity ahead of us, with a mindful approach to expense levels and sharp focus on factors within our control. Like the vast majority of our technology peers, we're seeing the impact of macroeconomic headwinds affecting broader IT spending.

Consistent with our commentary last quarter, many customers and prospects are taking longer with their purchasing decisions and are requiring extra layers of approval in the budgeting process. We remain extremely mindful of these dynamics and have considered them closely in developing our outlook for the remainder of the year.

Turning to the forecast for the full year 2023, we are reaffirming our guidance that we announced in the previous quarter. As we've highlighted in our earnings calls, we're introducing several new features that are already impacting on our pipeline. As a result, we anticipate gaining significant momentum in proprietary SaaS revenues in the second half of this year.

Finally, reflecting the margin benefits from increased mix of proprietary SaaS throughout the year, and the full impact from recent cost saving initiatives, we reiterate our goal of reaching the milestone of positive adjusted EBITDA in the fourth quarter of this year.

As we look ahead to the balance of 2023, while macro industry dynamics remain a factor, we remain focused on the significant opportunity ahead of us and are committed to fiscal discipline and driving compelling returns for our shareholders.

With that, we thank you all for joining. And I'll send it back to the operator for Q&A.