

2Q'23 Earnings Call Script

Script

Operator:

Good morning, everyone. And welcome to Semantix's Second 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 will be recorded. I would now like to turn the call over to Augusto Vilela, Semantix Head of Investor Relations and M&A. Please go ahead.

Augusto Vilela, Head of Investor Relations and M&A:

Thank you. Good morning, everyone, and thanks for joining our Second 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 a 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 thanks everyone for joining us today. I'm excited to talk about the progress we made in the second quarter and continued innovation across our platform.

Going directly to our results, in the second quarter we delivered total net revenue of R\$48 million, representing a 4% increase year over year. We continue to see the benefits of our transition to proprietary

2Q'23 Earnings Call Script

SaaS which grew 47% year over year. Gross margins saw another material year-over-year expansion, increasing 15 percentage points from the same period last year. And I'm pleased to report that we are on track towards achieving our objective of positive adjusted EBITDA in the fourth quarter.

As awareness and demand for AI driven applications has increased, we are seeing customers increasingly turn to Semantix for our unique value proposition that addresses a wide range of business and data challenges. Semantix has long held the belief that data is the raw material for AI. This belief has informed how we build and innovate every day, and we have maintained a rapid pace of development of new generative AI features over the last several quarters to capture this accelerating demand. With a growing portfolio that now covers multiple solutions, we are organizing our products into a set of ready-to-use AI applications, designed for specific industry use-cases, all of which run on our AI Platform.

Indeed, our proprietary, highly scalable end-to-end data and enterprise AI platform was designed to enable organizations to extract value from data in a time efficient way. This platform is comprised of multiple modules, which we have organized into a Data Analytics Hub to efficiently process large volumes in a scalable manner, a developer-friendly Integration Hub, a Gen-AI Hub that allows the creation of complete AI solutions, and an ML Hub that facilitates the development and management of machine learning models and LLMs.

We continue to leverage an agile and design-based approach across our AI platform, and we plan to accelerate product development leveraging our deep bench of engineering talent complemented by selective M&A.

I'd also like to share a few key wins from the quarter and highlight a pair of commercial partnerships that significantly contribute to our proprietary software distribution by combining Semantix's products with partners technologies.

The first win I'd like to highlight is Quasar, an asset manager with R\$ 2.7 billion in assets under management, that is a pioneer in direct lending in Brazil. Quasar chose Semantix's platform to build intelligent processes and systems, including the consolidation of over 15 data sources into a unified source of truth. In addition, we are structuring a delta lake, organizing an analytical environment, and developing models for anti-fraud, credit analysis, asset pricing and cash flow management.

Our comprehensive engagement with Quasar will culminate in Generative AI applications that will not only automate Quasar's internal processes for information extraction and report generation but will also serve as a customer facing service, providing clarity and customized reports to all stakeholders.

2Q'23 Earnings Call Script

Overall, our partnership with Quasar is illustrative of Semantix's ability to address highly complex and scalable deployments, accelerating Quasars entry to the Machine Learning and GenAI world, while driving efficiency and excellence in their operations.

Next, a large Brazilian bank and existing Semantix customer selected us to build data analytics across several internal departments, ultimately enabling the bank to leverage AI and generative AI. This material upsell is reflective of our successful land and expand strategy, and we are looking forward to expanding our partnership and cross-sell additional AI applications.

In the Healthcare segment, we are excited to announce a new initiative with an existing customer, which is one of Brazil's largest healthcare providers, active in both insurance and care. Together, we are developing a comprehensive Generative AI solution aimed at simplifying the management of hospital operations and health insurance costs. The initial version of this solution has successfully completed testing, and our near-term focus lies on enhancing the algorithm's contextual understanding. This includes generating insights from standardized datasets, issuing business alerts, and recommending action plans aligned with best practices.

Likewise, within the Pharma sector, we are preparing for the launch of a vertical specific Generative AI interface. This interface is built on curated public datasets and sophisticated epidemiological analyses. This will enable data driven insights into strategic pharmaco-economic inquiries. This innovation empowers the Pharma Industry to optimize their marketing and sales strategies with heightened efficiency.

Moving to commercial partnerships, during the quarter, we signed partnerships with Elastic and Neo4j in conjunction with Google Cloud. These partnerships will empower Semantix to offer a broader range of solutions to customers, integrating not only our own products but also complementary offerings from these providers. This collaborative approach enables us to cater to a wider range of customer needs, while also extending the customer reach of both Semantix and our partners. By joining forces, we will be able to immediately expand our cross-sell opportunities, connect with more diverse segments, and provide holistic solutions that resonate across industries. This synergy not only enhances our customer base but also strengthens our partners' visibility, fostering a mutually beneficial expansion in customer reach and market presence.

In summary, we had a strong quarter. Having passed our first year as a public company, I am incredibly proud of what the Semantix team has accomplished in such a short time. I am confident that we are better positioned to deliver sustainable growth while driving improving leverage in our model. With that, I'd like to turn the call over to Semantix's CFO, Adriano Alcalde, please.

Adriano Alcalde, Chief Financial Officer:

2Q'23 Earnings Call Script

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

In the second quarter, we delivered net revenue of R\$48 million, representing growth of 4% year-over-year and 21% quarter-over-quarter.

Our growth was driven by proprietary SaaS revenue which increased 47% year over year, with strong contribution from our AI application products. Overall, Proprietary SaaS and Services revenues increased to 50% of total revenue, from 44% in the year-ago period, increasing the amount of revenue generated by Semantix's intellectual property in the quarter.

Growth in higher margin proprietary SaaS and improved cost efficiencies drove meaningful improvements to our gross profit, which increased 51% year-over-year. We delivered gross margin of 47%, an increase of 15 percentage points year-over-year.

Moving to operating expenses, we remain focused on improving the leverage in our business while investing for growth. Non-GAAP SG&A, which is net of merger-related costs and stock-based compensation and other non-operational expenses, grew 33% year-over-year in the second quarter. The increase in SG&A was due mostly to higher level of expenses related to sales and marketing as we have been enhancing our proprietary SaaS go to market motion. The increase in R&D was due to ongoing investments in our proprietary platform and technology.

Adjusted EBITDA loss for the second quarter of 2023 was R\$26 million, reflecting an adjusted margin of -54%. As of June 30, we had cash and cash equivalents of R\$151 million. Note that during the second quarter we paid a total amount of R\$20 million in banking loans and executed R\$ 12 million in share repurchases.

We are actively monitoring and concurrently implementing measures aimed at enhancing profitability and reducing cash consumption. I am glad to report that, during the quarter, we identified additional opportunities for efficiency in both fronts.

As a result, we have reduced our cash disbursement by approximately 20% on an annualized basis. The majority of these efficiency gains were on contracts such as insurance, cloud and other vendors, and we also reduced headcount based on employee's performance. We expect these changes to be fully realized over the next 12 months starting in July 2023.

With regards to the near-term environment, we are continuing to see the impact of macroeconomic headwinds affecting broader IT expenditure. Consistent with our commentary in the last quarter, many

2Q'23 Earnings Call Script

customers and prospects are taking longer with their purchase decisions and require an extra layer of approval in the budgeting process. We remain extremely mindful of these dynamics and have considered them closely in our outlook for the remainder of the year. That said, we remain committed to innovating and investing for the large opportunity ahead while managing expense levels to improve our profitability.

Turning to the forecast for the full-year 2023, we are reaffirming our guidance for proprietary SaaS revenue. As we have highlighted, we are introducing several new features that are already impacting our pipeline. As a result, we anticipate gaining significant momentum in proprietary SaaS revenues in the second half of this year.

Our approach to proprietary SaaS is undergoing a deliberate shift, prompting us to channel our Sales and Marketing efforts accordingly, and we're re-aligning our financial objectives to prioritize improved product margins and revenue quality. In this context, we are no longer guiding for full year revenue, aligned with our long-standing strategy of focusing on proprietary SaaS growth. As a reminder, third party revenue has been hard to predict, and we may choose not to sell or renew certain high-ticket third-party contracts with low-profit margins.

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, I'd like to turn the call back to Leo for some closing remarks. Leo?

Leonardo Santos, CEO, Co-Founder and Chairman:

Thank you, Adriano. Our operational initiatives and dedication to our core business are yielding tangible results, as evidenced by our exceptional second-quarter performance.

I am very proud of the collective support from customers, partners, Semantix's team and investors on this journey of shifting the company towards proprietary SaaS products.

We are actively engaging with our customers through various channels, including the newly established advisory board that commenced its meetings in Q2. This customer-centric approach has brought about this important evolution in our Go-To-Market strategy and product positioning.



2Q'23 Earnings Call Script

Our product roadmap is advancing with a strong emphasis on deploying AI applications together with our customers. We are embracing a building, partnering, or acquiring approach, a strategy reflected in the successful partnerships we've made this quarter.

I would like to thank our team and our valued investors. Your support has been instrumental in our journey. To all those who have joined us, we extend our gratitude. Now, we can start our Q&A session.

Thank you so much.