4Q'22 Earnings Call Script

Script

Operator:

Good morning, everyone. And welcome to Semantix's Fourth Quarter and full year 2022 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 Fourth Quarter 2022 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 that will be 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. We have a lot of exciting developments to cover. On today's call we will provide details on our fourth quarter and full year 2022 results, as well as offer guidance for fiscal 2023.

I'm happy to report that in the fourth quarter we delivered record revenue of R$96 million, an increase of 132% year-over-year, with growth across each of Semantix's revenue lines despite a more challenging macro environment. Adriano will provide greater detail during his remarks, but we again delivered a material increase in our gross margin as we continue to see healthy uptake of proprietary SaaS. Fourth quarter growth was again driven by Proprietary SaaS, which came in above consensus expectations and increased 67% year-over-year. This higher margin revenue stream is the result of our increasing strategic focus on growing our proprietary business and is the key lever of growth and scale in our business; we plan to double down on our go-to-market efforts with this special offering, which I will discuss in a few moments.

In 2022, we invested to scale the business for long term success, which included a restructuring in the fourth quarter, all while successfully making our entry into the public markets with a listing on NASDAQ in August. While our focus remains on accelerating top line growth, we plan to drive leverage through a balanced investment approach with the goal of achieving operating profitability within fiscal year 2023.

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

Turning first to the product side. At the core of our offering is the Semantix Data Platform or SDP, a proprietary, highly scalable end-to-end data and enterprise AI platform, which enables organizations to extract value from data in a time efficient way without the large-scale deployment of resources that a multi-vendor approach requires. Recent developments on the SDP include today's release of the Semantix Data Marketplace, empowering our customers to analyze a vast array of data and enabling the creation of powerful AI algorithms with increased accuracy.

Looking ahead, we expect the Data Marketplace to increase our overall addressable market and, along with the addition of more than 15 new features to our data integration model, to directly translate to a growing cross-sell pipeline.

Additionally, in the area of generative AI, we have brought to market a solution that allows customers to cost-effectively leverage our infrastructure to fine tune and train their models. This is a huge opportunity to scale this pioneer b2b solution in the generative AI field.

Second, I would like to discuss targeted M&A and efforts to expand our footprint. Early this year we acquired Elemeno, a US-based, cloud managed machine learning operations provider, complementing the SDP. In addition to expanding presence in the US and deepening the engineering bench with a highly technical team, the generative AI features are a byproduct of the acquisition. I'm also happy to announce we have fully integrated Zetta, a health tech focused analytics provider, into the SDP.

Healthcare is an underserved vertical and an area of increasing focus for Semantix, and this quarter we have further enhanced our capabilities with the acquisition of ATSaúde, which provides analytics and insights in an innovative way to the pharma industry. With ATSaúde we will be able to increase our offerings to this sector, presenting a great opportunity for growth.

Third, we are making rapid progress enhancing all aspects of our go-to-market motion. To that end, in January we announced the hiring of Maurice Mello as Vice President of Sales and Marketing. Maurice has deep public company experience, having worked in senior sales leadership roles at Avanade, a joint venture between Microsoft and Accenture, as well as holding management positions at Google, IBM and SAP. He's driving improvements across the entire range of go-to-market activities, including an increased focus on vertical selling, enhancements to our marketing and lead generation activities, building our indirect sales motion, and importantly, continuing to build strategic relationships with key partners.

Reflecting on the past several quarters, I am especially pleased with the growth of proprietary SaaS in our results and the material expansion in our gross margin profile. Proprietary SaaS is the key lever of growth and scale in our business, and we plan to increasingly prioritize our go-to-market resources with this differentiated offering. Going forward, we will be guiding to this metric as the primary measure of the underlying health of our business. As we place greater emphasis on the proprietary SaaS uptake, we will continue to offer third party products, which continues to support our land and expand strategy, while focusing on improving the margin profile of this business.

In summary, I’m pleased with the progress we made in 2022, leaving us well-positioned at the forefront of emerging data, analytics and AI technologies. Further, recent M&A, ongoing integrations and new product launches align with our goal of supporting our customers throughout their entire data journeys. Looking forward, given the large opportunity in front of us, we plan to keep investing, while also placing increased rigor on our expense discipline and are targeting adjusted EBITDA profitability in the last quarter of this year. 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 couple of key wins from the quarter that emphasize the unique power of our platform.

First, we won a contract to monitor several hundred thousand streetlights in São Paulo. Leveraging our SDP this customer can monitor their distributed physical infrastructure in real time and organize maintenance as necessary. Further, members of the public can report issues, with their feedback being integrated into the analytics dashboard. This win aligns with our land and expands sales motion as we have the opportunity to layer on AI models to increase efficiency. This win is also illustrative of the broad range of data related problems that our AI-rich platform can solve, and a use case that can be easily replicated.

Second, we are engaged with a major agribusiness company that works with farmers to realize business efficiencies in areas such as risk analysis, personnel processes, and financial structuring. This customer is leveraging our data and AI expertise to build a data lake within SDP, delivering information collected from farmers to financial institutions and improve farmers access to credit, a known pain point. As we cited last quarter, we are seeing increased opportunities in agribusiness, an underpenetrated vertical with a vast runway for growth that represents over a quarter of Brazil’s GDP.

Overall, I'm incredibly proud of what the Semantix team has accomplished in such a short time and wish to take this opportunity to thank all of our employees, partners, clients and investors for their continuing support and commitment.

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

Adriano Alcalde, Chief Financial Officer:

Thank you, Leo, and thanks everyone for joining us. I will start by reviewing our fourth quarter and fiscal 2022 results and then move onto providing guidance for 2023.

Despite the economic uncertainty and acknowledging some companies are optimizing spend, companies are broadly moving forward with their data and AI projects. Against this backdrop and as Leo mentioned, we delivered record sales and top line growth of 132% year-over-year in the fourth quarter, with 2022 revenue of R$262 million.

We highlight 17 customers contributing more than R$ 5 million, or $1 million US, exiting the year, an increase from 12 at the end of the third quarter.

In the fourth quarter, we saw volatility in large third-party SaaS contracts but are pleased that our third-party SaaS gross margins expanded by approximately 20 percentage points year-over-year to 35%.

Our growth was driven by proprietary SaaS, the core of our scalable end-to-end data analytics platform, which grew 67% year-over-year in Q4. Growth in Proprietary SaaS drove meaningful improvement to our gross profit which increased 167% year-over-year. We delivered a gross margin of 54% an increase of 7 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. In the fourth quarter, we implemented a series of cost savings initiatives including a workforce reduction that allowed us to redouble our investments in proprietary product development and will accelerate our path to profitability. We expect to realize these benefits as we move through 2023.

Adjusted SG&A net of merger related costs, stock option plan and other non-operational expenses in 2022 grew 76% year-over-year and 166% in the fourth quarter of 2022 compared to the same period of 2021. The increase in SG&A for the year was due mostly to our investments in sales and marketing expenses as we reinforced our go-to-market approach. S&M expansion was also impacted by provisions for expected credit losses on receivables in line with our top line growth.

Adjusted EBITDA loss for the fourth quarter of 2022 was R$26 million reflecting a gross profit of R$52million which was offset by the SG&A in the fourth quarter due to the reasons I just mentioned.

As of December 31st, we held a cash and cash equivalents of R$338 million. Note that during the fourth quarter we paid a total amount of R$73 million in banking loans and, as of December 31st, had $4.9 million remaining in our share repurchase authorization.

To summarize 2022, our revenue increased 24% year-over-year to R$262 million in a challenging macro environment; our core proprietary SaaS revenue grew 38% year-over-year, driving overall gross margin improvement of 5 percentage points to 45%; and the adjusted EBITDA loss was R$69 million.

Before offering guidance, I’d like to share some thoughts on the near-term environment. As we have indicated, 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, which have intensified in recent months. Many customers and prospects are taking longer with their purchasing decisions and are requiring extra layers of approval in the budgeting process.

As we plan for 2023, we remain extremely mindful of these dynamics and have considered them closely in developing our outlook, which I would like to discuss now.

As Leo previously addressed, we increasingly view proprietary SaaS as the key measure of the underlying health of our business. As such, we are adjusting our guidance philosophy to include proprietary SaaS. We will continue to sell third party products strategically and for specific use cases and now expect a total net revenue growth rate of at least 10% for 2023.

We expect proprietary SaaS revenue for the full year of 2023 to be between R$75 million and R$80 million implying growth in the range of 40%-50% compared to the full-year 2022. We expect that, for this forecast, most of the revenue will come from existing contracts. Although we are not providing quarterly guidance, we expect a year-over-year decline in proprietary SaaS in Q1. Multiple factors are contributing to this below typical seasonality including non-recurring health data revenue in Q4; the discontinuation of some non-core products; and contract timing due to the introduction of new versions of some SDP modules.

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

As we look ahead to 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.