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Local Conference Call
ClearSale S/A (CLSA3)
2Q21 Results
August 16, 2021

Operator: Good morning everyone. Welcome to the ClearSale conference, where the earnings for the second quarter of 2021 will be discussed.

At this time, all participants are connected as listeners only. Later we will begin a Q&A session, at which time instructions will be given on how to participate. Please note that this conference call is being recorded; the recording will be available on the company's IR website at ri.clear.sale. The slide presentation that will be used is also available on the company's investor relations website, in both Portuguese and English.

Before I proceed, I'd like to clarify that any statements that may be made during this conference call regarding the business prospects are forecasts based on Management's current expectations. These expectations are subject to change because of macroeconomic conditions, market risks, and other factors.

With us today is Mr. Bernardo Carvalho Lustosa, President and CEO. Initially, Mr. Lustosa will comment on ClearSale's efforts during the quarter, and then he will remain available to answer any questions that you may have.

Now I'd like to hand the floor over to Mr. Bernardo Lustosa. Please, Bernardo, you can proceed.

Bernardo Lustosa: Good morning everyone. It's a pleasure to be here to conduct our first post-IPO earnings release. We're very happy here with the progress of things; it was a very busy quarter, but I believe we have good news to share here.

Okay, so, for those of you who are new investors, it's worth putting ClearSale into context – exactly what it is. ClearSale is focused on preventing identity theft fraud, in other words, when someone uses third-party information to carry out fraud, especially credit card fraud in e-commerce, but also fraudulent behavior such as "self-fraud", when someone uses their own card and then says they don't recognize the purchase – bearing in mind that all these types of fraud are with e-commerce.

The market has serious difficulties in dealing with fraud; so, when in doubt, it refuses transactions, loses money, loses good sales, loses good clients, and suffers image damage. So, this is why ClearSale makes such a difference in companies' bottom line. I remind you that the triangle to be pursued in order to perform good fraud management is to have a minimum fraud rate, at the same time that you have maximum approval, maximum approval rate... Just a moment, please. So, at the bottom left here, it's having minimal fraud rate while you have maximum approval rate, the shortest response time, and the least friction possible.

When we think about approval, it is obvious that we also have to think about conversion, because if the company places a lot of steps to complete a purchase or registration... the client might give up... then they give up precisely when all of the client acquisition cost has already been spent.

And we said a lot throughout the roadshow with all our investors that ClearSale works to minimize the real cost of fraud; even in a case study, companies lose money with fraud in four lines: in actual losses; in the transactions of good clients rejected – which is a false positive; in the cost with external suppliers and in the internal costs of prevention. With a fraud prevention team, and we manage to do so, it is focused on approving more, and we can thereby reduce the total cost of fraud in any region that we have tested; we call this real cost of fraud, and we are obsessed with approving good orders using all available technology and human intelligence.

Recounting a little of our history here. In 2005, we became a software as-a-service company and started to have the network effect – a shared cross-base of clients, a single base, so if someone commits fraud on an e-commerce site, they can't do it later on another one, because they're all being viewed by the same company – which is ClearSale – and it starts with this artificial intelligence code on this network-effect basis.

In 2008, we outsourced risk management, being responsible for approving each order and for the approval fraud indicators, so in the end we say that we have "skin in the game", in other words: I'm responsible for the client's result, so we had to solve all frauds in Brazil since that time – since 2008 –, and in order to do so we had to build several technological components, for example, of various fingerprints, two-factor authentication, etc. After that, we started working with onboarding, with what we call a "fraud application", when someone tries to register or purchase a good or service, a financial product, postpaid Telecom service, on behalf of third parties, or apply for a credit card, or open a checking account.

In 2015 we took part of ClearSale – the e-commerce part, of card-not-present transactions to the US and then Mexico. In 2017 we started working with credit scoring as well, because of the wealth of the database. In 2018, most of the onboardings, the registrations, are on mobile devices, especially onboardings in mobile phone apps; and we reached 2020 with this exponential revenue growth and with this technology complex here that we use in order to build our wide array of solutions, for example, Datatrust, which is a frictionless solution, with maximum approval and minimum fraud rate.

We held our IPO – based on CVM Instruction 400 – on July 30 (which coincidentally was my birthday), we were listed on the Novo Mercado: a special listing segment of the Brazilian Stock Exchange (B3) with differentiated rules for maximum corporate governance. The base offer was 1.1 billion, so we had a primary offering of 625 million and a secondary offering of 509 million, and the green shoe of roughly 170 million will still enter. And at the opening of the trading session, at the price of the US dollar and at the share price hit (at the opening, it was up 20%), we became a Unicorn the minute we were listed and traded for the first time.

Of the resources, 50% are earmarked for organic growth, in other words, heavy investment in sales teams and the entire chain that involves (for example) artificial intelligence teams, IT teams, etc., 20% for our open innovation area for us to incubate several options that we have because of the database, and 30% for inorganic growth, to take advantage of market opportunities and mainly accelerate our product roadmap.

Now I'll talk about a qualitative part, some of our recent achievements. In e-commerce, where – with meetings with investors at the roadshow, I said that we always had to innovate to avoid churn, etc. – we are now starting to do two-factor authentication also through WhatsApp, which increases efficiency, increases accuracy, and reduces the need for human intervention; we evolved a lot in this quarter in the express SLA product to serve other segments, as I said, we had a lot of upsides; we conducted a biometric test already for in-store pick-up; we changed the telephone system to Avaya, which gives a better call quality in the human analysis; and integrated with Thales so that in the future we can avoid SIM swap fraud, since we will know the date that the phones' SIM cards were changed. That serves for e-commerce, and it serves for onboarding as well.

Also, Data Trust evolved a lot, with the implementation of biometrics and modularization of components. This appears to be simple, but that's what gives scalability; you have all the components in a modular way, and you can build the solutions for the clients.

In Open Innovation, we repositioned the area of corporate fraud as Business Trust (just now, in July); research intensified on new fronts (for example: the part of health insurance). Despite being a challenge and even having been strongly questioned, from late June 2020 to June 2021 we grew 63% in the number of IT & Analytics, artificial intelligence professionals; our commercial structure grew 35% – bearing in mind that we had a high LTV/CAC ratio, so we should invest more in the commercial structure and expect to continue investing mainly if the LTV/CAC ratio remains high. So we increased 35% June-over-June. In international expansion, we were a little more discreet here, but we hired two Sales Heads in Mexico, then of enterprise and partnerships; and various actions of people, diversity and culture that are our driving force. At the opening speech at B3, I said: "Our greatest challenge is for nothing to change at ClearSale in terms of maintaining our essence, maintaining our culture, keeping our DNA growing", and we took several actions, for example: a flu vaccination campaign because of the pandemic; launching of diversity groups of wide-ranging types; we managed to be on the list of the best in GPTW Women for the second year in a row; our GPTW climate survey has reached an NPS of 85; in other words, the question is: "Would you recommend ClearSale as a place to work?" And we had an NPS of 85, which is quite high.

As an employer brand, our actions to attract talent sponsored the "Campus Party' and partnered with Furia, which is a sports team; and we carried out an action of solidarity through the donation of food baskets back when the pandemic the strongest, which was the second quarter, where each employee donated R$25 and the company completed the donation with R$75 more, that is: three-to-one. That action was very successful.

Moving on to the highlights of the second quarter of 2021: we increased net revenue by 35% quarter-over-quarter, and I remind you that we're now comparing a pandemic period against another pandemic period, unlike the first quarter where I compared a period of pandemic (where we had social isolation) against a pre-pandemic period, where we grew 82% there in the first quarter. This is a very significant growth, you will see from the number of orders that doesn't grow and driven by what we always said was our main avenue of growth, which is onboarding revenue – so, quarter-over-quarter. And here the pandemic has not been working in our favor, nor has it ever been, but we nonetheless managed to grow 56% year over year in onboarding, and it's increasingly becoming our biggest avenue of growth, and also relevant revenue for ClearSale, more relevant than it already is.

In e-commerce, even without significant growth in orders, we grew 31.6% in Brazil and 20.1% abroad, slightly more discreet here, due to increased exchange rates. If the exchange rate had remained stable, we would have grown 32%, so it would be in line with Brazil.

In new sales, we simply managed to bring in more revenue from new recurring contracts than all of last year, so 5.9 million against 5.4 last year; and if we compare the entire first semester of 2021 against the entire first semester of 2020, we grew 125% in new sales. Keep in mind that we only increased the sales team by 30 or 35%, so our LTV-to-CAC ratio – even though it grew, even though we sold more than double the same period last year, in the first semester of last year and also more than all of last year – should have increased rather than decrease, even as sales strength increased.

Costs and expenses grew 71%; we've managed to bring people from IT & Analytics, and we managed to resize human analysis to the greater need that we had with the intensification with the second wave of the pandemic. Adjusted EBITDA – even with these increases in costs, expenses, structuring for the IPO – we had positive EBITDA here: 21 million, 19%, and even in a quarter where everyone was struggling to carry out the IPO, if we use the "Rule of 40", from the sum of growth and EBITDA margin, here we have 54, which makes ClearSale, as the rule says, above 40. It's an attractive company. We managed 54 even in the IPO quarter.

In terms of net revenue growth, like I said before, 35% quarter over quarter, and 53% first semester over first semester. Naturally this was driven because in the first quarter, I grew… if you look here... I grew at a time of pandemic compared to a pre-pandemic moment, where the involuntary volume, the uncontrollable volume of orders had grown 61%. We had an 82% growth in revenue in Q1. And now that the volume of orders grew only 9%, we still manage to grow 35%, driven mainly by the highlight here, if we look at June 2021 against June 2020, we grew, where we said that it was our main avenue of growth and there was a lot of room to grow. We grow here almost 73%, but we also grow in all the other two avenues clearsale

of growth, like I said. We didn't wait… as you can see... we didn't wait for the IPO to accelerate the company because we are a cash generator, so we simply reduced the EBITDA for growth, and we were very successful at that.

Like I said, if we take new sales, we grew from 2.6 million recurring contracts added until the first semester of 2020, up to June 30, to 5.9... like I said, higher than all of last year. And here we have growth of 66% in international, 70% in onboarding, and 400% in e-commerce Brazil. If you remember that the order growth didn't happen, two effects are happening here. One is that we have managed to bring in new contracts, but also as the growth in orders has not grown so much, a major issue which was internalization; it's happening much more in the opposite way, greater outsourcing with ClearSale. This indicator here is in monthly recurring revenue, in other words, this would bring (if there is no churn) 71 million in ARR next year, roughly 71 million, and it's comparable to our churn rate, which we managed to reduce further in the first semester against the second.

So, if we analyze what we added in new sales revenue against what we lost, the net revenue growth would be 5.5%, because we added 5.9 million monthly recurring contracts and lost only 400,000, which would be a projected churn of 2.8 for the year, but we believe that this is contextual and was even too low. And I remind you that we also grew in the number of clients, of course the onboarding ones have a higher average ticket; we brought more... we brought nearly 1500 clients here, 1449 clients, and with an extremely low churn rate. So, in terms of growth and client retention, we were spectacular, more than... bearing in mind that we sold more in the first semester than in all of 2020.

We have a growth in gross income in the semester and almost went sideways here in the quarter. Of course, if we are structuring the company for growth, first we had to adjust the size of human analysis specialists staff, because we had a second wave and only in the second quarter were we able to have the offer of human analytics proportional to the demand and leaving all of our clients' indicators on track – equalized – so much so that we didn't have... our churn rate was very low. we reinforced that, it has a high cost, our IT & Analytics team has managed to bring these professionals; this has a cost. And we have a duplicity that we are migrating to the cloud, which also generates additional cost, so this makes the gross margin percentage drop here by 8 points, which was fully expected and even planned for.

In terms of expenses, we had a one-off increase here because of the IPO; there are non-recurring expenses such as consultancy, assistance with preparation for the audit, etc. Additionally, we reinforced the commercial structure and will continue to do so, because our sales are increasingly healthy, and we also have an administrative adjustment due to the IPO and to support growth, so we need HR to bring all these people, now we have an IR department, etc. So, if we didn't have these costs and continued as we were before, we would have growth of 25% here and would be giving scale to the company. But this is not the case because we don't want to; we want to structure ourselves to accelerate growth even further. Nonetheless, like I said, we generated EBITDA and even so, in the first semester we increased our EBITDA compared to last year, strongly driven by the high EBITDA in the first quarter as well.

So, my final message: we promised the market that we would reduce EBITDA and increase growth, and we were very effective in doing so, because we increased our sales force between 30 and 35% (I don't have the number in my head here), but new sales increased by 125%. Of course, we grew less in this quarter than last quarter because we're comparing a period of social isolation with another period of social isolation – unlike last quarter, which was a time of pandemic versus pre-pandemic – but it's an extremely healthy growth for the quarter (35%) and we did all this before using the proceeds of the IPO. Because we are a cash generator, we focused on the two main avenues of growth, which are onboarding in Brazil and e-commerce in Brazil. The first initiatives have already been taken in our international growth strategy, by structuring the senior force, starting the structuring of the senior sales force in Mexico, which has not yet brought significant results, but now, with the proceeds from the IPO, we expect to continue this acceleration and also to enter the greatest acceleration in the area of open innovation.

So, now we'll open the floor to questions, and I thank you for your attention. Okay?

Question and Answer Session

Operator: Now we'll start the question-and-answer session; you can submit your questions by text or by audio. To ask a question, use the app's Q&A button by clicking on the icon at the bottom of your screen. If you'd like to participate by audio, just go to the Q&A field and write that you'd like to participate, and your microphone will open later when your question is announced. The question can also be submitted in writing, by entering the text directly in the Q&A field.

Our first question comes from Ernesto Gabilondo. I'm going to open Ernesto's chat. Ernesto?

Ernesto Gabilondo: Hi, good morning. Bernardo, can you hear me?

Bernardo Lustosa: Yes, good morning.

Ernesto Gabilondo: Perfect, thank you. Ernesto Gabilondo from Bank of America. Congrats on your IPO, thanks for the opportunity, and a couple of questions from my side.

The first question is if you can provide the EBITDA margin for Brazil and the international market as of second quarter. I am just wondering if you can provide this type of information in your future quarterly releases.

Then, my second question is related to the international market. We have seen Riskified was listed in the US market. Do you consider it as your most direct bidder? And what will be ClearSale's strategy in the US? Would you like to be in the top three or you feel comfortable to be within the top five? Any color on these will be very helpful. Thank you.

Bernardo Lustosa: Thanks for the question. I'm going to address your second question and then I'll call Renan to talk about the first question.

Riskified is one of our competitors, but due to the focus on region, the one that we consider more as a direct competitor, where we have the commercial disputes on new sales is Signifyd, and they have a similar business model than ClearSale, but we have a low churn rate in the US and we usually generate a better [unintelligible] fraud, and usually when they shift from any competitor to ClearSale they don't leave, and this is demonstrated by the churn rate.

We are not worried about being there third or the fourth. We are always worried about quality and delivering the best cost of fraud because there is no sense in selling, in acquire new clients and providing a worse service, and then have a high churn rate. And as far as I know, most of these competitors works on losses and we work on profit, and we use our proceeds to grow in a sustainable way.

So, Renan, I think that we do have the EBITDA separated by Brazil and international. Do you have it or is it on the release?

Renan Ikemoto: Yeah, we have on the release. Hi Ernesto, thanks for your question. We do have the EBITDA from the Brazilian operations on the release, which was 26.8 million in the quarter, representing a 26% gross margin. You can consider by the financial statement basically... what we name the controlled company is the Brazilian operation, so you can have these proxy by the financial statement.

Ernesto Gabilondo: OK, perfect. Thank you very much.

Operator: Please remember that to ask any questions, just click on the Q&A icon at the bottom of your screen, either by typing the question directly or requesting participation by audio.

We have another question, from Tales Granello: "Good morning; congratulations on the results and on the IPO. Could you give us more details about what we should expect in terms of gross margin and EBITDA for the coming quarters? Are the greater operational leverage over the coming quarters and the end of the migration to the cloud expected to bring margins to 2Q20 levels?"

Bernardo Lustosa: Well, as we... I don't know if we talked about it at the roadshow, but our strategy is EBITDA compression, which also starts with gross margin compression, because a good part of the IT and artificial intelligence professionals are costs and not investments, and we are creating a framework to improve products, to better serve clients in each segment, to operate in new segments, and all of this puts pressure on costs, in addition to structuring the company for growth, which puts pressure on expenses as well. So, we are already expecting EBITDA compression throughout this year and next, as a trade-off for the growth that has been coming, so that we can return to the levels of gross income and EBITDA that we had previously.

Renan Ikemoto: If I can just add to that, Tales: we had an impact from the cloud; we have [*unintelligible*] duplicity in the cloud, which consumed 2.5 million in the quarter and this represents almost two percent of margin consumption, okay? And that's expected to continue until October of this year.

Operator: Excuse me, just once again. Just to remind you: to ask any questions, just click on the Q&A icon at the bottom of your screen. You can type the question directly or request participation by audio.

We have another question, by text. Danilo Vite: "What justifies the number of transactions growing 9% and ClearSale's revenue growing 53.7%? Apparently, I understand that there has been an increase in the average ticket, does that make sense?"

Bernardo Lustosa: Yes, it does make sense, because when a client performs part of the management in-house and then decides to outsource all management to ClearSale, it increases their average ticket. But additionally, this number of transactions could be smaller, and it isn't falling as much. Keep in mind that now we have all of Brazil with physical commerce... with brick-and mortar retail open... and our number of transactions has not dropped, so new sales also help the number of transactions to remain stable. So, it's two combined effects. For one of those, you're right; I mean, contrary to what we were asked, whether there would be internalization, we have more *de-internalization,* in other words, more outsourcing; and besides that, we managed to restore part of the orders that would be expected to be on a downturn with new sales.

Operator: Excuse me. Once again, remember that to ask a question, just click on the Q&A icon at the bottom of your screen, and either type in your question directly or request to participate by audio.

Since we don't have any more questions, I'd like to hand the floor over to Mr. Bernardo Lustosa for his final remarks.

Bernardo Lustosa: Well, I believe I've already made my final remarks, so... just to remind you: we are in a quarter of non-social isolation vis-à-vis a quarter of social isolation last year, the number of orders should have been falling; even so we achieved new sales in e-commerce that made e-commerce grow by 9%, and we managed to increase revenue now on a more comparable basis by 35%, 32% in e-commerce, the same thing in international e-commerce. Also, like I said, we've been swapping EBITDA for growth, and this growth is coming mainly from onboarding, where we always said there was a lot of market to grow. And we did grow – I believe 70%, semester over semester, revenue added in monthly recurring contracts, making us very happy with the expected result, and demonstrating several things that we were asked in terms of market opportunities in Brazil: whether it was saturated in e-commerce; whether it really had a lot of market share to capture. Investments in sales have brought fantastic results. By the end of the first semester, up to June 30, we sold more than all last year. In other words, our LTV-to-CAC ratio should have even gone up, which will obviously make me have to invest increasingly in sales, as revenue is not paid on the same day. Of course, we will have a compressed margin, but it will accelerate future growth.

So, with that, I thank you all.

Operator: ClearSale’s conference call is now closed. We appreciate your participation and have a nice day. Thank you.