

## Q2 2016 Earnings Call

### Company Participants

- Lincon Lopes Ferraz, Investor Relations Officer

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Positivo Informatica's Second Quarter 2016 Earnings Conference Call. Today we have with us Lincon Ferraz, Investor Relations Officer. We would like to inform you that all will be in listen-only mode during the company's presentation. After Positivo Informatica's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

We have simultaneous webcast that may be accessed through the company's website [www.positivoinformatica.com.br/ir](http://www.positivoinformatica.com.br/ir). The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Positivo Informatica's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Positivo Informatica and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the call over to Mr. Lincon Ferraz, Positivo Informatica's Investor Relation Officer. Mr. Lincon, you may begin your conference.

#### **Lincon Lopes Ferraz** {BIO 18660463 <GO>}

Thank you. Good morning, everyone. We are here to present the results for the second quarter 2016. We have a good set of results. In the period, we registered strong growth in revenue and also in EBITDA and recorded the lowest level in terms of net debt in the last three years.

So I'm going to move to page three, I'm sorry page four, so we can have a big picture of the economic scenario. In Brazil, the economic scenario remain sluggish. We have the first signs of the reversal expectation, both from the consumer side and the industrial side, so

you can see in the chart below that the consumer confidence is raising, it's over 76 points right now in a very interesting best [ph].

So in the period, the retail sales were affected by the high unemployment rates, because people in Brazil they buy electronics devices in installments, so they need to be confident and then buy it. (inaudible) at reducing budget because of the -- there is a low perspective in terms of tax collection.

But in the corporate segment, we saw that companies were more confident about the political issues that we had in the first half of the year, now it's more -- things are more clear right now that we are going to have a change in the government.

So moving to the right side of these charts, we can see that mobile phone revenue grew by 178% in terms of volume, it already represents 26% of the consolidated net revenue. Another diversification strategies that we took was to boost international operations. You can see that in the second quarter the volume of sales for Positivo BGH brand grew by 75%. These are sold in Argentina, Uruguay and also in Rwanda. We closed an agreement with VAIO Corporation to expand the sales of this brand to Argentina as of September and also Chile and Uruguay as of 2017.

And in the end, you can see that we entered the medical technology segment through an acquisition of Hi Technologies, it's a start-up company here in Brazil.

Moving to page five, you can see our market share in the mobile phone segment, right now it's 6%. If you compare with the second quarter of 2015, we had almost 4 percentage points increase year-on-year, very significant. We are already in the first place among the bestselling brands in Brazil.

We have Positivo, we also have Quantum brand. For a more high-end brand, we use the Quantum brands. They are going to enter the retail markets. They usage should be sold only direct sales through the e-commerce, but in the second half of the year Quantum brand will be in the retail, so we expect to increase sales in this brand. And there is an expectation to keep the pace of triple-digit growth year-on-year in the coming -- in the next two quarters. So in the third and the fourth quarter, we expect to grow more than 100% in terms of net revenue in mobile phones.

You can see that it's very important to grow. The growth in mobile phone is very important for us, because the market -- the mobile phone market is over three times bigger when you compare to the PC market in Brazil, so it's a \$10 billion market in Brazil. So every percentage point that we can make here represents a lot of revenue.

Moving to page six, we can get more color on the strategic actions on profitability and also in cash generation. In terms of profitability, we've reduced a lot and we were very conservative of raw material purchases, so we avoided to have to grant discount of sales, and also we increased beautifully the post-sales efficiency gains and also in the factory. We have a factory in Manaus that we launched in November 2016, and in the second

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quarter of 2016 the efficiency levels of Manaus factory was very good. So, finally, we are operating in optimal levels of efficiency in Manaus.

In the G&A side, we have a big reduction. You can see that G&A expenses were differenced by 22% year-on-year when you compare the first half of this year to the first half of the 2015. If you consider that the inflation rate in Brazil is very high but reduced in the period, the reduction is over 30%, so very, very strong reduction.

On the cash side, on the right side, you can see that Manaus project there, recoverable taxes projects, we could monetize R\$51 million in the first half of the year. We are moving in line with the expectation to monetize R\$80 million in the full year. So, we just need monetize more 39 million in the second half of the year to meet with the original expectation.

And also in the inventory side, you can see a big reduction on the excess inventory. This is the inventory that surpassed 54 production days. We reached the bottom at R\$57 million, but this is almost the limit. We will not be able to reduce much more than R\$57 million in the next quarter.

Moving to page seven. Here we have six important things on perspectives. The first one is the revenue outlook. For mobile phones, as I mentioned, we have a very large volume of customer orders, so we can have big revenue in the third and the fourth quarter again. So, that's why we mentioned that we are confident to post triple-digit growth in the third and fourth quarters in mobile phones.

On the government side, we have a portfolio for the year of 500,000 PCs and tablets for delivery in Brazil, Argentina and Africa. 300,000 we already delivered in the first half of the year, so the remaining balance of 200,000 we are expecting to recognize in the third and fourth quarters. There is a -- the fourth quarter is more concentrated, so in the third quarter there will not be so huge volume in government.

In the retail, we are very consistent in terms of sell-out. We have a portfolio with excellent value for money for the consumer, so we're into [ph] regular configurations in Brazil, selling very well. If the market improves, we can grow revenue, but even though the revenue outlook for retail is good for the second half of the year.

In the international operations, we are prospecting a new concept in Africa. We expect to close in the coming weeks. There are discussions in Kenya, South Africa, and other countries, so we expect to announce a close in the coming weeks. And also VAIO operation, we will expand it to Argentina and Chile and Uruguay. For this operation we have currently only in Brazil, now adding more three countries. But these three new countries will be managed by the company's joint venture called IFSA.

The third bullet is the profitability in Brazilian market, in -- the Brazilian PC market is expected to keep the good behavior that we had in the first half of the year. So, we don't expect any surprises here. And in the fixed cost, we finished on April -- in April, an organizational restructuring that culminated with the reduction of 20% of the managerial

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position in the company. So, we have some more recurring costs in the second quarter, where we will see the gain of this restructuring as of the third quarter.

The Manaus Project should monetize the recoverable taxes -- is doing very well, above our expectations. So we are concluding the migration of smartphone productions from Curitiba to Manaus, and this is expected to boost the monetization of tax assets.

Finally, we are in the final stages of preparation to launch medical technology products in 2017 through the Hi Technologies. It's a company that we acquired 50% of its equity. So, they are innovative products, they have intellectual property registered, so it's very interesting. We are very optimistic with this new business for 2017.

Moving to the financial results on page nine. We can see the sales volume starting with mobile phones. You can see that smartphones grew by 260% in the year-on-year in the second quarter and feature phones grew by 80%. It's a very strong performance. This is represented by market share gains, channel diversification, the introduction of the new brand Quantum. So all of this combined is driving this growth. We are very excited with the second half of the year to keep the pace.

On the PC side, overall, it was flat year-on-year, around 300,000 computers. But if you take a look on each segment, you can see that retail and corporate we saw a reduction of 30%, this is in line with the reduction of the market in Brazil in the period.

In the government, on the other hand, we doubled the volume year-on-year because of the introduction of the contract in Quantum. And also we had two big projects in Brazil and one in Uruguay called (inaudible). If you add everything, you'll reach these strong growth.

Taking a look into public segments, we had a reduction, very strong. This is because of our decision to reduce the sale of this for the sector in Brazil, because the margin was not so good. So we tried to be very conservative protecting the profitability of the company by reducing a lot of our exposition to this segment.

Moving to page 10. You can see that net revenue reached R\$565,000 -- R\$565 million, I am sorry, is a 25% growth year-on-year. It was driven by the mobile phones. If we didn't have mobile phones, the net revenue would be flat, so mobile phones already represent 26% of the consolidated net revenue. In the first half of the year, we have a growth of 12%.

If you take outlook by categories, by segments, we can see that retail and corporate, they grew. This is because of better average prices. You can see in the right side that prices are very different when you compare year-on-year. So, desktop prices and notebook prices are being affected by the recomposition of margins, recovery of margins, the FX led [ph] to the prices and also by higher configuration, so we have more Core i from Intel when compared to the period in the second quarter 2016, that selling of processors were the big ramp [ph].

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Moving to page 11, you can see that COGS represented 75% of net revenue, so the gross margin, reached 25%, it's a big recovery. It was favored by the better configuration, the recovery of the prices, the drop in the FX here in Brazil, and also by the efficiency gains in the factories, as I mentioned. And the big revenue for the second quarter of 2016 also helped to dilute the fixed cost, so if you put everything together you can understand why the gross margin was so good.

G&A expenses were down [ph] by 18%, if we analyze only the recurring items, this is because of the reduction of personnel, that I mentioned. We concluded in April a degradation of 20% of managerial positions in the company.

We had some non-recurring items, so you can see that the 8 million that you can see as non-recurring 5 million is going to termination cost. So on the third quarter, we expect to have a clean figure for G&A expenses.

On page 12, adjusted EBITDA for the second quarter is at R\$45 million, which represent 8% margin. It's a very good margin, a big recovery from the first quarter 2016 when we registered only 2% margin. This led the company to be profitable again. One year ago, we registered R\$40 million of net loss; now we are registering R\$12 million of net income.

The financial result was negative by 28 million. Most of the expense was represented by exchange rate variation, because we were carrying a hedging position of \$80 million [ph] and the local currency got very strong in the period. So, we had to recognize this 17 million of exchange rate variation loss.

Moving to page 13, cash flow. We returned [ph] to put both in the second quarter and the first half together, so you can see that the behavior is very similar between them. The first thing that I would like to highlight is the recoverable taxes. We are making 29 million in the second quarter and 51 million in the first half. Very strong cash generation from the Manaus project.

The other assets and liabilities represent the provisions for future expense that we are going to have in regard to the government contract that we sold in the second quarter. Working capital consumption is normal, because of the strong growth of hedging [ph]. And the investments, the main highlight here is the investment that we have in the joint venture of \$2 million to support this joint venture, to boost the growth in Africa.

Moving to page 14, you can see the working capital in terms of days, which improved [ph] a lot, especially on the inventory side where we closed the quarter at 64 days. This is the result of the reduction on the excess inventory project that I mentioned in the beginning of my presentation. We also had in the second quarter a lot of air freight for mobile phones, for notebooks, because we are so shy of inventory that we had in fact managed to use air freight. This led to a reduction on net debt to R\$226 million and net debt/EBITDA multiple of 1.9 times, it's very good multiple, very healthy on the financial strength of the company. We carried a big cash position. On June 30, 2016, we had around R\$500 million in cash.

So that's it, I'm going to open for Q&A session. Thank you.

## Questions And Answers

### Operator

Thank you. The floor is now opened for questions. (Operator Instructions) Thank you. This concludes today's Positivo Informatica's Earnings Conference Call. You may disconnect your lines at this time.

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