

## Q3 2014 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 Informatics' Third Quarter 2014 Earnings Conference Call. Today, we have with us Lincon Ferraz, Investor Relations Officer. We would like to inform you that you will be in listen-only mode during the company's presentation. After Positivo Informatics' remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions). We have a 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 belief and assumptions of Positivo Informatics' 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 will turn the call over to Mr. Lincon Ferraz, Investor Relations Officer. 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 third quarter 2014, when we recorded our net income of BRL30 million. Moving to page five, we can discuss a little bit of other market. The third quarter was the best quarter of the year so far for Positivo Informatica. The market scenario was satisfactory, in line with our expectations. We observe an improvement in the retail, (technical difficulty) from TV sales.

Sales to individuals recovered, offsetting the decline in sales to the government market, due to scheduled pauses in the deliveries of certain projects, in compliance with the election law. Elections have also affected the corporate market, because large companies waited for the results before making investment decisions.

The third quarter was also marked by the renewal of the sector's main incentives. The IT Law was extended until 2029, benefiting computers, tablets and smartphones with an IPI tax reduction. The government also indicating that it will extend the exemption of PIS/COFINS in the direct sales of these products until 2018.

Our sales outperformed the Brazilian market, resulting in a probable market share gain in the third quarter. Volume grew in the retail segment and once again in the corporate market, contributing to the diversification of the company's revenue.

From a cash standpoint, we made a great improvement [ph] closing September with the interest already below BRL500 million, the lowest level since the second d quarter 2012. As a result, there was a major cash inflow in the third quarter, reducing net debt by 25% in relation to the beginning of the year. Long-term debt currently accounts for over 90% of net debt. The company expects to record its highest quarterly revenue of the year in the fourth quarter, given retail seasonality and the resumption of deliveries to government clients.

Moving to page six, we can take a look in the volumes. In the third quarter sales totaled 665,000 PCs and tablets in line year-on-year. We recorded a good performance in the retail growing 7% and in the corporate market growing 12%, which offset the decline in sales to the governments. Smartphone sales grew over 400% year-on-year, accounting for almost all mobile phone sales, driven by the Brazilian customers growing preference for the product.

On page seven, you can see the new launches of the year. The launch of a new product line, with more than 40 models to meet all the needs of Brazilian customers. In 2014, Positivo Informatica diversified its portfolio and made its debut in the two-in-one market, offering devices that can be used as a notebook and a tablet.

The smartphone line was also expanded and the launches include the top-of-the-range model Positivo S480. This device has a 4.5 [ph] inch touch screen, quad-core processor, Android KitKat and 1GB memory. The device is one of the thinnest in its category and was created to satisfy Brazilian consumers, who appreciate the possibility of changing the colors of their mobile phones.

On the page eight, we can see that will change our brand. We now have a more vibrant and attractive global, in line with the new profile of the Brazil's middle class. The positive logo is now colorful and more casual, creating an increased identification with people.

Let's begin the financial structure in page 10, we can take a look in the revenue and average price. Our net revenue totaled over BRL500 million, it was 3% down year-on-year mainly due to a lower price and lower deliveries to the government. The average price decreased between the second and the third quarter, mostly in desktops. Also due to a reduction in sales with government clients because this segment usually have higher considerations. Mobile phones grew by 25% versus the second quarter and that happened because almost 100% of the sales were smartphones instead of feature phones.

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Page 11, we can see that we have an improvement in gross margin, which increased by 4 percentage points, year-on-year the improvement was due to better pricing, we have suspended price increase since the second semester last year and quarter-on-quarter we have an improvement of 1 percentage point, which was due to bigger sales to the retailer segments. And those sales made a pressure in the selling expenses, you can see the selling expenses are now 60%, 2 percentage points above second quarter. That happened because we have more marketing share expenses, which dates and so I'll relate it to the retail sales.

G&A expenses totaled BRL32 million, which was 45% up year-over-year, we had higher personal expenses after they are collected by an agreement, as of March and also severance expenses. In addition, it's worth noting that in the third quarter 2013, the company reversed the accrued provisions in variable remuneration. So we had a global impact here since then in the third quarter 2013, we are making the same provision that we use it to do along the year.

Page 12, we reported a good operating results in the third quarter, adjusted EBITDA totaled BRL34.4 million, which was 37% up year-on-year with a margin of 6.4% is extended by 2 percentage points. Net income totaled BRL13 million, reversing the net loss of BRL19 million recorded in the same quarter last year, due to the normalization of the operating results in Brazil, lower financial expenses and improved results in Argentina.

The financial result was a less expense of BRL10 million, it improved year-on-year and quarter-on-quarter. The exchange valuation account was a positive BRL4 million, due to gains from the hedging strategy. The exchange variation result is comprised by a positive balance of BRL12 million from hedging instruments, and the negative effect of the FX variation on outstanding obligation of BRL9 million, so as in both we have a gain of BRL5 million. In the year we recorded net income of BRL18 million, which is also reversing the net loss we recorded last year, So, we are improving and moving in a good way throughout the year 2014 with profit.

Page 13, we start to look on the cash flow, we can see the operating cash flow was positive by BRL117 million in the third quarter alone. It was benefitted by improved working capital, you can see that working capital contributed with BRL71 million of the 117, which was a very good job from our team. We also had minor investment and some share buyback that (inaudible) we had a net debt reduction of BRL110 million.

On page 14, we can see some working capital metrics. The financial working capital closed at September around BRL640 million, it was 10% down quarter-to-quarter due to the measures adopted by the company to optimize the invested capital. The decline was mostly concentrated in the inventory line, you can see that the inventory days decreases to 89 days. The inventory, closed at September below BRL500 million, which is the lowest level since the second quarter 2012.

In order to reach the result, the company improved its billing and purchase planning processes and increased its sales efforts. This strong cash flow led to a quarter-on-quarter decline of BRL110 [ph] million on net debt, which totaled BRL294 million in the third

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quarter. The long-term portion came to 9%, which is a big improvement when compared to the previous quarter, and it was 64%, so we have a good cash position right now.

Moving forward investments, page 16. Investment in the third quarter totaled BRL6.7 million, it was 6% up year-on-year but in the first nine months it was BRL19 million, which was a reduction of 13%. Most of the investments related to R&D for the development of profits operating seasons and educational technology solutions. We also have the in sourcing of mobile phone production in Curitiba.

So thank you for your attention, we can now start the Q&A section. Thank you.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) I'll turn over the conference to Positivo Informatica for final considerations.

### A - Lincon Lopes Ferraz {BIO 18660463 <GO>}

Thank you. Well, I'll give some final considerations. We are very happy with the results in the third quarter and we are very confident in the last quarter of the year. We are expecting growth in net revenue because of the seasonality in the retail we had strong volume of orders. We will be keen to say our mobilephone [ph] through the operators OE & Team, they are big operators here in Brazil. We also expect to recover the delivers in the government projects because of the election, now we are free to deliver some computers to the government.

Also we don't you want to miss the achievements we made in the working capital. So the management will remain committed to consolidate what was already a gain [ph] and we'll keep seeking for new opportunities (technical difficulty) 2014 and we will focus our 100% of the attention on that. I thank you and see you in the next conference call. Bye Bye.

### Operator

Thank you, this concludes today's Positivo Informatica Earnings Conference Call. You may disconnect your lines at this time.

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