

Q1 2021 Earnings Call

Company Participants

- Caio Goncalves Moraes, VP of Finance & IR and Member of Board of Executive Officers
- Helio Bruck Rotenberg, CEO, Member of Board of Executive Officers & Director

Other Participants

- Unidentified Participant

Presentation

Helio Bruck Rotenberg {BIO 15342060 <GO>}

Good morning, everyone. We are here to talk to you about the results we had for the first quarter. We're very happy with the results. It is actually -- it's a unique moment for the company. All of our businesses have become quite significant despite all of the problems we're facing today in the area of parts and supplies, especially of integrated circuits. The results are very good, they crown the efforts of the past few years. You can see our numbers and the highlights. Our revenue was quite high 85% higher than the first quarter of last year \$89 billion, our EBITDA was BRL61 million with a margin of 9.1%. The net revenue was 65 -- the net income was BRL55 million in the first quarter and exceeds the first quarter of 2020 by 1.175%. At the end of March, last year we were affected by the pandemic and have had very good performance. We're very happy to say that we have concluded our portfolio of computers. Positivo had a very strong computer portfolio for the end consumer. Now Positivo, is very strong, with a significant share demanded by the Brazilian middle class, we had value[ph] it was increasing in mid-high. We're talking prices of up to BRL2500, BRL3500 to BRL3800 today.

But there was an area where we didn't have a significant share. It was low below 6% we had been negotiating with HP for a while and now we come in with a compact brand. With that we have concluded our computer portfolio, we are more and more portfolio-based company.

We do the same with smartphones phones. We have one additional brand. We're doing quite well with this strategy. Just as we're doing well with our strategy in different avenues of growth. Our growth is centered on consumption but other areas have also grown 162% is what we have had of increase in direct sales. We have also had an increase in public stations, public institutions. This market has grown a lot. We had an increase of 162% and companies are reacting to the pandemic, are buying again and we have had an increase of almost 13% in the corporate market.

Cash has also done quite well. Digital transformation, it is doing really well. We have online channel sales, both for our own and third party online channels. They have maintained

their expansion trajectory and by means of our retailers marketplace, we're doing really well. We have reacted, modernized all of our platforms have reinforced our channels, right now we only have online sales or mostly online sales, 70% used to be on-site and 30% digital, and this is now has been inverted. I have already talked about the brand portfolio with the addition of Compaq, Vaio is doing really well, an increase of 92% and has become a very important brand. Sales have exceeded our expectations of growth.

It is strong and a demanded brand for the A and B classes in Brazil. In terms of our mix, we have an improved product mix and despite the prices of pieces going up so significantly, we have a gross margin of 23.2% which is greater than what we had in the first quarter of 2020. The demand is so high, if we look at the demand we see that it's very high hybrid, work is here to stay. I have no doubt about this, everybody can see this. We are no longer going to live the same kind of lifestyle and the demand is going to continue high. The market is very heated, perspective is that we'll have 260[ph] million computers per year according to the IPC and it might be even higher than that.

We are going back to the peak of computer sales we had in 2011 and this combined to the demand of other sectors which fight for the same integrated systems, smartphones, tablets, televisions, they're all competing for the same integrated circuits. There are unbalances throughout the world with the prohibition of some Chinese companies to operate with American Technology and therefore they have anticipated their purchases. We have had some events of plants burning projects with that we are lacking integrated circuits.

The difficulty to buy a computer block[ph] is very high and integrated circuits for LCD because LCD is something demanded by the whole chain all of the electronics and that makes everything very expensive and it's very difficult to buy. We could be selling a lot more than we are if it weren't for the restrictions of supply. We have been able to deliver the minimum that we would like to deliver and you can see very good sales numbers for the first quarter. We have been able to deliver the minimum required so that we can grow well this year in all of our channels.

Next slide. I'd like to repeat the graph here. Just to consolidate this moment. We start explaining what happens with our three large division. We have a vice presidency for the different areas, so we have corporate public institutions. We are pursuing all the opportunities coming from the market. Computers is something that we sell for all of them, tablets for all of them, peripherals as well. We have the electronic ballots, which is something that we are discussing publicly, we have the servers, which do really well with corporate and public institutions, small retail.

Our sales in the first quarter last year were to 160 retailer. This year, we had over 700, so this project where we permeate the whole Brazilian retail has worked out really well. Smart house connecting[ph] growing significantly. The demand for automation -- for residential automation products remains high. We're also exploring the corporate market with that -- with intelligent offices and also sales for construction companies. Educational Technology is not doing so well. The schools are still closed. The priorities are other. Digitalization of education has become necessary and we believe that this area will grow a lot. Rental continues growing. This is true for corporate and public institutions and

payment solutions were selling to other clients and just to talk to you about our revenue and how they were broken down, you can see 55% for consumer, 15% for corporate, 21% for public institutions. When we break down according to the different projects. Our main projects are computers and then mobiles, tablets almost 14%, mobiles 24%, servers 3%, services 4%, and other 9%. We continuing investing in start-ups. We have just closed the deal with EuNerd for maintenance and services. We already used EuNerd services in the past. It's a very interesting company.

We have made an investment in this company and now have 11 start-ups in our portfolio. And next slide, please. And now talking more specifically about the consumer market. I've already talked to you about the computer market, we have 357 million units in 2021. Computer has become personnel (inaudible) in our lives, we can all see that. Historic levels at retailers are still low even lower than in 2020 demonstrating that we still have a lot of opportunity to grow. We have sales opportunities. This market will balance out eventually, but we the supply issues as well.

Brazil has had -- in Brazil 20% more sales than in 2020 and this was limited by supply, otherwise it would have been much higher. And our gross revenue reaches BRL500 million indicating a growth of 152% when compared to the previous year to 2020. And so we have merged with Compaq, our purpose is to provide technology to leverage and lives in Brazilian families, Brazilian lives, and Compaq completes our product portfolio. In corporate, we're happy with the growth when compared to the first quarter, almost before the pandemic, the market was almost normal in the beginning of last year. Even so, we've grown. Companies are buying again after a very strong V-curve last year with the pandemic where companies closed their doors, reduced investments, companies already show their budget their employees[ph] need to have computers. Companies are providing infrastructure to their employees.

Notebooks are the major trend because of the mobility required by hybrid work. So everything is done by notebooks, not desktops and we are ready to grow this portfolio for the corporate market. Public Institution we've already shared this graph. Our backlog for the delivery of computers is to be 690 and it is now 932 with the significant growth. We grew 43% in the first quarter, this market is very seasonal. We have a lot of requests and basically this is true for the whole year indicating a stronger growth when compared to last year in the public institution market and just to review the results of the first quarter, we had some large bids in the Ministry of Finance.

We had large tablet tender processes and that really leveraged the public market and we are still observing the same strong growth. Right now we have a very high delivery backlog because of our supply bottleneck. We also have the electronic ballots. It's not included in this figure of 932. We have already been hired for 225,000 urns and sales of approximately BRL925 million. This is what we imagine. And, but we have some supply limitations. The project is doing really well. And most of deliveries will take place next year for the '22 elections.

Next slide. Financial highlights. I turn over to Caio, our CFO. He will talk a little bit about this.

Caio Goncalves Moraes {BIO 18682110 <GO>}

Thank you very much, Helio. Financial highlights for the first quarter. Gross revenue as Helio mentioned, we have had robust growth of 85%. We have really gone to a different level. In the fourth quarter, we had a gross revenue that has led us to a differentiated level when compared to the past. When we analyze the gross revenue for the business we can see growth in the consumer segment mainly but public institution has reacted and the fourth quarter last year was 21% and it is now 23%. Corporate has also reacted but is still lower than what it was last year.

When we analyze gross revenue per project we can see notebooks growing a lot because of the mobility and desktops are going down. We have an interesting mix here and we have had an increase when we look at tablets and mobiles. Servers was a little lower. We also had an increase in HaaS. Because our revenue volume has grown a lot. We had an increase of 26% in our gross revenue even though the percentage results are similar and now we're going to talk a little bit about our operating expenses.

We have had increases but we have more expenses with marketing, freight. However, we can see that there has been a very good control. We went from 14.7% in 2020 to 12.9% in the first quarter of 2021. For G&A, we see stability, demonstrating a very good control over the fixed costs of the company and the company will keep doing so.

Next slide. I will talk a little bit about the financial result. Even though we had larger gains because of the changes in the currency rate, dollar rate went up and it closed at 5.7 last year when compared to the BRL but our financial operations are very well controlled. We are financing a higher operation and even, so our results are quite aligned to the first quarter of 2020 and then in the next slide, I will talk a little bit about our profitability. Net income. Here we can see the EBITDA. We went from losses of approximately BRL3 million in 2020 and our results were positive this year quite significantly 61.4% and we have had a strong management of fixed costs, trying to control the adjustments of the currency rate.

We went from BRL4 million to BRL55.8 million in net income. EBITDA and net income are quite aligned demonstrating that in the first quarter when we didn't have recurring events and they are comparable this year and last year we can see that the company has very good operating results. The EBIT was BRL40 million. All of the operational figures are aligned at very high levels and then in the next slide.

We're talking about cash and indebtedness. We have a very comfortable position. It is better than it was in the first quarter of 2020, also our indebtedness is very comfortable and very well controlled. It changes a little bit. We went up to a higher level. We are financing a larger operation but when we compare our performance we can see that it's very good. We went from 1.6x to 1.1x which is a very comfortable number demonstrating a very good control of our debt. In addition to that we're doing our homework in terms of the management of our liabilities and profile and you can see that in the end of the first quarter 2021, we can revert the proportion of short and long-term debt.

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We go to -- from 53% to 46% in the short term. This is different from what we had in 2020 and we have a mean duration of 23 months which was used to re-profile our liabilities. We exchanged short-term debt to long-term debt with a very interesting result and we're also able to maintain a very well controlled cost of our debt.

And we are now going to try to give you a perspective of what is happening and what is going to happen. In the consumer segment the pandemic will extend, home office will expand, and we cannot think that even after the pandemic this will leave no traces. Home office hybrid work in the future all demonstrate that this segment will continue very high -- the computer segment. With the high exchange rate we have this year added to the high price of components indicates that we will have an average ticket of 15% to 20% higher than that of 2020.

The demand remains high. When we have high demand this is good news for the company. We have a lot of consumers of course but the passes anchored by the increase in the exchange rate and also the increase and the part of components has to be taken to the client are ticket -- average ticket will be 15% to 20%. We have complete portfolio with three brands that are well positioned to home automation category should continue to grow. The demand is very high for remote controls. We have just launched a light switch. You change it and you control the whole room using your smartphone.

If you change the light switch in one room you can turn lights on and off or scandal them at any time. It's very nice and simple. Also electronic gates, locks where doors are opened by smartphones. We have a very complete portfolio and are very excited with it and this expansion of small retail we have different sales points since first quarter in a project that is doing really well.

Throughout Brazil -- we are spreading throughout Brazil. We used to be very strong within the largest 100 retailers, but we are now spreading to smaller ones and working really well with the smaller retailers. In corporate, the renovation of the park and the exchange for notebooks to obtain more mobility for hybrid work leads to more optimistic projections. Banks are still buying for their employees. They have this concern, not every company provides computer to their employees, but they allow their employees to use their own computers, but this combination of consumer and corporate is very large even though the growth in corporate has been smaller in the order of 12.5% year-over-year.

The trend of increase in 2021 average ticket is in the range of 15% to 20%. We have had also a switch from purchase to leasing. The demand for servers and storage also remains high. And therefore, we have a very good performance here too. Public institutions, we have a scenario of tender processes of large volumes of notebooks, tablets so we have (inaudible) tender processes. They have require tablets in large amounts (inaudible) we have had some notebooks and we have had -- actually we still have a lot of other tenders coming our way.

This will continue growing this year and in the upcoming years. Also we have already mentioned the Ministry of Finance. They have had their largest bid in the last three years. We won a few lots. We are beginning to deliver the computers (inaudible) is another

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example. They had a large tender process, very different ongoing processes and some that have already taken place. We have a higher number of sales this year and have an order guarantee of BRL932 million. This is a pre-election year, meaning that we will have more bids, so we'll have more in the second quarter for deliveries in 2022 and then during the elections next year it will be more difficult because it's not possible to buy or to have tender processes according to the law and so the government is anticipating purchases.

This is a very optimistic market. Computers are personal, the demand is high. We have increases in electronic ballots, intelligent or smart homes, educational technology, we think that, that is also going to improve. All of these segments are doing well. This is a unique moment for the company. We're very happy to disseminate these results today. I thank you all for your attention and I now open for Q&A.

Questions And Answers

Operator

Very good. First question, we have here Helio is from (inaudible).

Q - Unidentified Participant

The capacity to expand -- can you expand the current activities and how can you expand your manufacturing plant.

A - Helio Bruck Rotenberg {BIO 15342060 <GO>}

Well, thus far, we do not need to expand. We used to work with one shift, sometimes with two shifts. We are now working with two shift and we still have a third shift to work if we need to. Most of the lines are current or peaked production in 2002 to 2013. You know we have a lot of production capacity for smartphones, tablets. We're doing quite well in terms of our production capacity and we do not need to expand, right now. Of course we must make some investments and this is something that we are anticipating some BRL10 million to BRL12 million investments because the technique to test computers has changed. We are buying some things, but in terms of our plant[ph] part, we're doing really well. We are doing really well Boreo, Manaus. We have a computer plant in Manaus another one in Curitiba. In this footprint, we already have is enough to meet the demand

Operator

Very well. Second question from (inaudible).

Q - Unidentified Participant

Do you have any M&A consolidation strategy or are you going to develop start-ups and have organic growth?

A - Helio Bruck Rotenberg {BIO 15342060 <GO>}

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Well, we do not have any good example on our growth. We have servers that were purchased in the end of 2018. We bought a server company, we have nothing against organic growth. We have nothing against inorganic growth. We always look at the different opportunities. Our avenues for growth are well consolidated. We know that our strategy has been defined. We will always try to analyze what is best organic or inorganic growth. This means that yes, we are looking at opportunities. We have not closed anything, but we are looking at opportunities.

Operator

Very good. A third question from (inaudible).

Q - Unidentified Participant

Two questions actually. We are in the middle of the second quarter. Thus far what are the trends you see for this quarter and how do you see the rest of the year. Will we have any recovery of the activities.

A - Helio Bruck Rotenberg {BIO 15342060 <GO>}

Well the second quarter you know, we are 1.5 months into the second quarter. And I can tell you that it's very strong as well, the perspective is to keep it strong with robust numbers. We also see the third and fourth quarter, we have had request from the government. We have closed some deals with the retail and I believe that this is going to be a very strong year.

Q - Unidentified Participant

Very good.

Operator

We have (inaudible).

Q - Unidentified Participant

What -- do you still have worsening is the worst gone, how do you see the second half of the year with normalized supply.

A - Helio Bruck Rotenberg {BIO 15342060 <GO>}

I think we are at the peak of the worst moment in terms of supply. I don't think that it will be much worse than it is right now, but I don't think that it will improve fast. Some components will get better only in the beginning of next year, and some in the second half of next year. So I believe that we are at the peak right now. Perhaps prices are a little bit higher for some components in the upcoming months. Not as much as it was in the past, but the amount that is produced and allocated will not change.

Operator

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Next question (inaudible).

Q - Unidentified Participant

The revenue growth in (inaudible) was significant. Can you sustain this level of sales?

A - Helio Bruck Rotenberg {BIO 15342060 <GO>}

I would say that we had a one-timer that will be expanded to the second half. We had sales for the government deliveries to a retailer that sold units to the government. And that may have changed it a little bit. I don't know whether that will be maintained for the second half. I do not have the exact figures right now. But yes, it will remain strong. I don't know whether it will be exactly like it was in the first quarter. I can't guarantee that.

Operator

We have no further questions. Let's wait a little to see if any other question comes up. We have no further questions, would you like to make any final considerations.

A - Helio Bruck Rotenberg {BIO 15342060 <GO>}

I think we've already talked about our optimism. Sales have been good. We have had a strong year and will continue at a high level. We hope that we will always be able to share such good news as we did now. Thank you all for your attention.

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