

Y 2018 Earnings Call

Company Participants

- Lincon Lopes Ferraz, Financial and Investor Relations Officer

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Positivo Tecnologia's Fourth Quarter 2018 Earnings Conference Call. Today we have with us; Lincon Ferraz, Financial and Investor Relations Officer. We would like to inform you that this conference is being recorded and that you will be in listen-only mode during the company's presentation. (Operator Instructions)

We have simultaneous webcast that may be accessed through the company's website ir.positivotecnologia.com.br and MZiQ Platform. 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 Tecnologia'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 Tecnologia and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'd like to turn the conference over to Mr. Lincon Ferraz, Positivo Tecnologia's, Financial and Investor Relations Officer. Mr. Lincon, you may begin your conference.

Lincon Lopes Ferraz {BIO 18660463 <GO>}

Good morning, everyone. We are here to present the results for the fourth quarter 2018, when the company reduces income before tax of BRL10 million.

You can proceed to Page 2. Here we have some color on the PC market, sales in Brazil increased by 7%, totaling 5.6 million PCs sold according to IDC. The segment in which this segment increased more were retail. In retail the growth was 5%, boosted by higher consumer confidence. The ICC index reaches 94 points in December 2018, 6% up year-on-year. In the Corporate segment sales increases by 10%. This is a show of the recovery of investments in Brazil for the company's in infrastructure and also renovation of

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hardware investments. Total PC market in Brazil was very low in 2016 due to recession. So 2018 is the second year of growth in the country.

Positivo sales grew by 18% in 2018 with an excellent performance both in the retail and corporate sales. In retail, our growth was 20%, boosted by our product portfolio success and also the higher exposure of our brand provided by the sponsorship to Corinthians soccer team. In the Corporate segment, our growth was 32%. This was led by the expansion of the sales through resellers and also the increase of sales through medium and large companies provided by our new commercial team. You can see in the chart on the right side, that our market share reached 16.9%. It was 15.1% last year and 15.3% in 2016. So it's growth path.

Moving to Page 3, mobile phone markets. This year 2018, the concentration in the three major manufacturers was the same when compared to 2017. The three together holds 80% of the total volume of the market, leaving only 20% for the other brands. Our market share closed the year at 3.2%, it is flat year-on-year. Our prospects for the first half 2019 is good. We detected very good sales turnover in their channel. So there position in the first half of this year is very strong. So this could lead to bigger revenues.

Moving to Page 4. Here we can see the margin of our sales, it closes the quarter at 11%. It is normalized level, the only quarter in 2018 that was very low, while the second quarter -- in which the FX rate in Brazil was certainly depreciated. So we didn't have time to pass this to price. So the margin suffered a little bit. But as of July, margin recovered as soon as we pass enterprise (ph) all these depreciation. The fixed cost also reduced by 20%, when compare it to the first part of 2016.

On September 2018, we promoted big restructuring of the administrative areas in this company. We had around 130 people laid off, and also we cost a lot of experience. So BRL10 million was the level of the G&A expenses, considering only personal and G&A expenses.

Moving to Page 5. Here we have some news. According to the material effect that we disclosed it early this year, we acquired the control of access, we hold now 80% of its capital, affect revenue in 2018 was BRL160 million, 80% of this volume was represented by servers and storages and 20% of the revenue was Mini PCs, thin clients and desktops.

The Acquisition price was structured in the form of Earn Out, so the impact in cash flow is minimizing, and we expect improvement in the results of this company, provided by the gain of scale with the combination of acquisition Accept and also from synergies in after-sales, manufacturing and also fixed costs. We hope to have a more comprehensive portfolio to address the Corporate segment and also the government. So we are very confident for 2019, with this acquisition.

Page 6, here we have another news is the establishment of a fund for investments in IT companies, this vehicle we created according to the Brazilian IT law, which was renewed in October 2018, allowing companies like Positivo and other manufacturers to invest a portion of its obligation of investments in R&D in these kind of activities. We invested

BRL14 million in the funds in December 2018, and in February 2019, the first two investments were performed to startup companies in the agribusiness sector. The first one is called Agrosmart and the second one is @Tech.

The Agrosmart is -- they have sensors for to monitor crops, they combine this analysis of genetic information, satellite images and harvest data, we hold 12% stake in this company. And the other one is engaged on monitoring livestock. We hold 20% stake in the second company. We expect to see more acquisitions through 2019, because we expect to have around BRL10 million to BRL20 million every year of investments in these vehicle.

Moving to the financial results on Page 8. Here we have the sales figures. Analyzing PCs by channel is interesting to say that in all the segments, retail, government and corporate, we grew, in retail it was 20%, government 7%, and corporate, the biggest growth 32%. Mobile phones on the other hand, we saw a reduction in smartphones of 29% because of the very fierce competition, but in feature phones, we grew by 23%. The combined performance was almost flat year-on-year.

Moving to Page 9. Net revenues totaly BRL2 billion is 2% more when compared to 2017. The interesting thing is to see the average price is moving up. You can see very clear in the multiple slide, this is containing the FX ratio in Brazil passing onto prices except on the second quarter 2018, as I mentioned that the margin was lower.

Moving to Page 10. Here we can see COGS, sales expenses and G&A.

COGS represented 74% of their net revenue in the fourth quarter. This is a better level, when compared to the second quarter and also when compared to the fourth quarter 2017. This represents an improvement in the ratio between the pricing and the exchange rates. Sales expenses declined to 14%, reflecting the reduction on provisions for after-sales and also the less representative sales to retail in which they carry a lot of marketing provisions. G&A expenses were boosted by 16% year-on-year in the first quarter, mainly in the personal expenses, which was only BRL9 million, due to -- it was impacted by the reorganization that we made in September 2018.

We expect these lines to keep stable all 2019, due to the very fierce control that we are providing in the fixed costs.

On Page 11. We can see the operational results. EBITDA reached BRL47 million in the fourth quarter with 8.6% EBITDA margin, very healthy. This is much different when compared to one-year ago, when EBITDA reached only BRL23 million, it's almost double.

Looking to the net income, it was a net loss of BRL0.5 million in 2018, big improvement when compared to the year, before and because in 2017, we had a net loss of BRL47 million. It was impacted by accounting provision that we made for inventory levels and also the tax installments program that we entered into agreement in the end of 2017. Financial result was a negative BRL43 million mainly because of exchange rate variation, which was negative BRL23 million. Net debt close the year at BRL217 million, with a net debt multiple over EBITDA of 1.9 times.

We are very confident about the capital structure, because of the new credit line that we contracting with (inaudible), it is BRL15 million (ph), nine-year terms and a very competitive cost. So we expect this happen in the second quarter 2019. And we will include significantly our capital structure.

So that's it, that's the results for the 2018. Hope to see you soon on the disclosure of the results of the first quarter 2019. The interesting thing for the 2019 figures will be the consolidation of the several segments with the acquisition of Accept. Thank you very much. Hope to see you soon.

Operator

This conference has concluded. Thank you for attending today's Positivo earnings conference call. You may disconnect your lines.

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