

## Y 2014 Earnings Call

### Company Participants

- Lincon Lopes Ferraz, Investor Relations Officer

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Positivo Informatica's Fourth Quarter 2014 Earnings Conference Call.

Today we have with us Lincon Lopes 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 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 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 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 Lopes Ferraz, Positivo Informatica's Investor Relations Officer. Mr. Lincon, you may begin your conference.

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

Good afternoon, everyone. We are here to present the results for the fourth quarter 2014 when we recorded our net income of BRL23 million. This was an increase of 49% year-over-year.

Moving to page five, you can see something about the context [ph]. Positivo Informatica recorded a satisfactory results in the fourth quarter, with normalized margins and balanced cash flow, allowing the company to close the year with net income growth and a substantial reduction in net debt despite the adverse market scenario.

In the retail segment, demand weakened as a result of the decline in the consumer confidence in Brazil and the credit restrictions as such [ph] which was due to the size of Brazil's hardware market. In order to confront this scenario, the company intensified its sales efforts and managed to keep sales volume virtually flat over fourth quarter 2013.

The sales was highlight of the period was the performance of mobile phones, it is a strategic market for the company. The segment posted its highest ever quarterly revenue from the sale of 250,000 units, or then 150% up year-on-year, fueled by the increase in retail sales and the entry into the operator markets.

In 2015, the company will seek to deepen its revenue diversification process in terms of products, sales channels, and geographic region. The company will encourage the sale of mobile devices, direct and indirect sales to companies, as well as international operations, especially to the start-up of the African operation, which was already begun with a long-term government project in Ruanda. In addition, other management priorities include optimizing working capital, generating operating efficiency gains, and maintaining discipline in fixed cost.

Moving to page six, we can see some figures of market share. You can see that in Brazil, Positivo's share stood at 17% in the fourth quarter is best figure in the two years. Argentina, we expanded our leadership position reaching 19% of market share. As you can see in the left below, we closed the fourth quarter with 23% of share in the retail segments, which was a little bit higher in the first half of the year due to a huge competitive pressure in the retail segments with one international company and the same dealers that we sell. On the right side below, we can see market share position over the years. We are now with 15.8% market share. It's the highest level since 2009. So we are very happy to celebrate 10 years of leadership in Brazil.

Moving forward, page seven. so we can talk about sales volume. Average sales of mobile devices was up and computer sales recorded a downturn, both trends [ph] are in line with the trajectory of the Brazilian market in the period. Mobile phone totaled 200,000 units in the fourth quarter, it's more than twice as development year-on-year, it was fueled by the improved performance of the retail segment and the beginning of the sales in the operating market, after the establishment of partnership with TIM and Oi, our operators here in Brazil. In 2014, we sold over half a million mobile phones, twice as big as 2013.

However, we have 16% decline in the sales of PCs and tablets under the Positivo BGH brand, it was chiefly due to the government project delivery cycle, which, actually in 2014, was concentrated in the first half of the year, due to the Presidential elections in October.

Moving forward, we can see through the optimal launches, we have recently launched a high configuration in smartphones, the Positivo Octa. Sales will begin in March in the retail channels and at the mobile operators. This is the first True Octa-core device manufactured in Brazil and targeting more demand in users. The device is ultrathin, with 8 millimeter and comes in three colors; white, black and gold.

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In the right side, you can see kind of a Chromebook, actually is Positivo with Android systems. This is first notebook with Android operating system of the company and it features 10 inches screen, touch screen, which is sold at a price BRL799, very, very entry level.

Moving forward, we can see some of the sales of the projects in Ruanda. The projects contemplates the construction of our facility, total area of 7000 [ph] square meters in Kigali, capital of Ruanda. The total monthly nominal production will be 60,000 PCs and tablets. The agreement with the local government (inaudible) the minimum volume 750,000 units with delivery schedule distributed through five years. In 2015, we expect to deliver 50,000 educational laptops.

Talking about the financial highlights, we can move to page 11. As you can see as revenue dropped 19% in the fourth quarter. It was mainly due lack of government projects. It was concentrated in the first half of the year. If we take a look in 2014 as a whole, the reduction was only 9%. This reduction is far low, is far better than the total market, which decreased (technical difficulty) Brazil. While we gain at market share as we saw and also we have the modest diversified revenue or you can see for example in the fourth quarter, the mobile phones represented 7% of net revenues.

Talking about the average prices, we can see a drop was 4% in the fourth quarter when compared to the previous quarter.

In the case of desktops, it was due to our project in the state of Minas Gerais in Brazil with early entry-level configurations. Notebooks is also representing 5% decrease. It was due to our concentrated sales with entry-level configurations supported by Microsoft with Windows 8 Bing program focusing on entry-level product.

In the case of mobile phone, the reduction is 36% relating to the third quarter. It was due to the resumption of the sales of feature phones. If we analyze smartphones segment only, the price was flat in release when compared to the third quarter.

Page 12 you can see about the cost, we address our gross margin of 23% is one percentage point reduction when compared to the third quarter. This reduction was due to the partial best route to the price of the new fluctuations, but we could manage to recover that with more additions in finance expenses and G&A expense, where you can see that in the case of selling expenses, we recorded product [ph] 9% of expenses reflecting our business, the reduction of 0.3 when compared to the third quarter and also in the G&A we recorded BRL29 million in fourth quarter is the best figure in best for all quarters.

(inaudible) you can see the operational results. EBITDA registered 39 million in the fourth quarter, it was EBITDA margin of 6.4% plus on the previous quarter. In the year end, EBITDA stood at BRL155 million with an adjusted margin of 6.6%. We had financial expenses in the fourth quarter recorded BRL13 million, it was boosted by exchange in valuation loss, we had BRL11 million of positive [ph] accounts payable, but it was protected by half of the hedging instruments, which was recorded a gain of BRL6 million.

Net income totaled BRL23 million in 2014, this is an increase of 49% year-on-year, still below -- our plans is still below what we think that it is fair for the company. We are moving forward in 2015 to recover that.

Page 14, cash flow. So after our fourth quarter, we've had slightly negative operating cash flow of BRL2 million. 2014 figure came to 120 million operating cash flow, highest since 2011. This result was fueled by working capital gains, which reduced management focusing on reduction (inaudible) as previously mentioned. So we could manage to reduce net debt by 98 million from January to December 2014. Page 15, we can see that with some details. You can see that inventory days decreased to 76. Also, trade accounts payable was up, 45 days, both movements of the cash conversion cycle to 102 days. So this working capital currently represents 28% of net revenue.

As I said, net debt reduction -- we had a reduction of BRL98 million in 2014 in the net debt, which is currently below BRL300 million, in which 91% of debt is in the long term. So we are very healthy in this performance (inaudible) expecting in the first month of the year.

Moving forward, I would like to present you the results of the investments. CapEx put on BRL23 million in 2014, it's a reduction of 20% when compared to the previous year and also a reduction when compared to the original budget. The original budget was expecting BRL27 million. So we managed to reduce BRL4 [ph] million in the year and also in 2015, we expect to keep the same level as we recorded in 2014.

Now I'm going to open to the Q&A session. And then I will come back with the final considerations. Thank you.

## Questions And Answers

### Operator

We will now begin the question-and-answer session. (Operator Instructions) Mr. Lincon, at this time we have no questions on the phone.

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

Okay. So, I will -- in my final considerations what we can say is that the currency [ph] slowdown is the biggest challenge for 2015. The manner that we have seek to mitigate the impact, adjusting the fixed costs are conservative in the working capital and more selective in investments. We also are going to focus on broader geographic and sales channel diversification with mobile phones, new projects in Ruanda and expanding in Argentina. So I will see you in the next opportunity, which will take place in the first week of May. Thank you very much. Bye-bye.

### Operator

Thank you. This concludes today's Positivo Informatica's earnings conference call. You may disconnect your lines at this time.

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