

## Q2 2015 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 2Q15 Earnings Conference Call. Today with us we have, Lincon Lopes Ferraz, Investor Relations Officer.

We would like to inform you that this will be a 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 will 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>}

Thank you. Good morning, everyone. We are here to present the results for the second quarter 2015.

Well, moving to page four, we can check something about the market scenario. It was a very established market scenario, whereas PC and tablet sales strongly impacted by the economic crisis here in Brazil. We can see that according to IDC, the PC market has a

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decline of 38% year-on-year in the second quarter. In the retail, consumer confidence is inhibiting that the value purchases, that we paid in on financing from the repurchase.

In the Corporate segment, we see a lot of postponement of investments in the market due to the uncertain chemicals in their political and economic scenario. And also in the Government, like in 2014, this year deliveries are concentrated in the second half of the year. We can see lower impact in the Smartphone markets; it is not decreasing a lot. The product which is still benefiting from remaining in the top of the Brazilian consumer wish list.

The company performing well considering the scenario, we have market share gains in all the segments. In the Corporate segment, we were ranked in the third position, the best [ph] in HD in the Brazilian market. Mobile phones, we grew over three times in terms of volume year-on-year. We have low activity in the Government segment because of the schedule of the year is concentrated in the second half of the year. This is something bad, but it will recover. Right now it is already recovering, but the lower net revenue in the Government segment led us to have lower dilution of fixed costs in the company.

While we are trying to offset these impacts with efficiency gains in the technical assistance area, we are operating with savings of around 25% right now. And also we had a good reduction in the fixed costs, as you can see in the G&A expenses dropping by 30% year-on-year.

We can move to page five and see something about our volumes. As I said, mobile phone volume was (inaudible), it is over 300,000 units in the second quarter, it is the best volume ever for the Company. It offsets part of the decline in the revenue. Actually in the retail net revenue, it allow the Company to grow even in the market, very, very bad for the PC and tablet, it could manage to grow the net revenue in the retail, only because of their performance in the mobile phone. You can see that PC sales are almost flat in the retail. In the Government, we see a huge reduction. Last year, we had over 200,000 units. This year it varied, reached 60,000. In the Corporate segment, we are increasing our volumes by 10%.

Well, we can move to page seven to see something about the financial results. As I've said net revenue reduced by 22% year-on-year, but this reduction was concentrated in the Government segment, which dropped by 45%. Retail net revenue increased by 3%, it was boosted by their good performance in the mobile phones, which is over BRL50 million in terms of net revenue.

Average price trend for desktops is moving up. Most of the increase in the case of desktop is due to half of the sales were represented by Government projects. We have some projects here, the company with average prices of over BRL3,000. If you make an analysis with considering this effect, we could see price increase of around 8% in the Retail segment.

Notebooks, the prices are stable. We see no change from the first quarter, but effect as opposed of the desktop, in the Government notebooks, we didn't sell any notebooks in

the Government market in the second quarter. So, you should make an analysis clearly from this effect. We could see best due to price of around 8% in the second quarter, when compared to the first quarter.

Mobile phones are increasing 16%. This is the new product line, which we launched in the quarter. It's performing very well. We have (inaudible) has a smartphone, very well configured, with 8 -- it is a octa core processor with full HD screen. It's a very good device and it's sold in the Retail for around BRL900. So, the entering of the new product line is giving us better performance in terms of our average price in the mobile phones.

We can move forward and see that the gross margin stood at 19%, it is one percentage point less than the previous quarter. Well, this occurs because we had a worst price versus exchange ratio, because 90% of the computer costs is under BRL10. So, the appreciation of the average import dollar price by 37% year-on-year led to a reduction in the gross margin, because we did a pass-through to price on 100% of this variation.

In the sales expansion, you can see that it was racing to 16% in the second quarter, is one percentage point less than the first quarter. The highlight here is the increased efficiency in the (inaudible) Curitiba plant. As I said, we are operating with savings of around 25% in these segments.

General expenses totaled BRL21 billion in the quarter, it is 29% down year-on-year, it reached the lowest level since 2012. Well, this is a result of the management taken by the company to reduce fixed cost, which is making to gain in the better amount and other line, you can see that both is in reduction year-on-year.

Moving forward to page nine, we can see that adjusted EBITDA, which considers 50% of their joint venture in Argentina, totaled BRL50 million in the second quarter, which results 64% down year-on-year. EBITDA margin came to 3.4%; the decline in the operating results was caused by pressure of petrol higher, raw material component costs due to the appreciation of the dollar in the period.

The financial results was an expense of BRL35 million in the second quarter, it was impacted by the higher interest rate in Brazil, and also by the recognition of exchange variation losses. In the first quarter of this year there were future exchange gains totaling BRL12 million. It was figured by a fluctuation by the end of March, but in the second quarter the (inaudible). The exchange rate fell to BRL3.10, which led to the reversal of the first quarter gains, as well as an anticipation of future losses totaling 18 million. So, we posted a net loss of BRL39 million, it was impacted by this exchange rate variation. But if we exclude the seasonal exchange variation in the financial results, net loss came to 9 million in the second quarter; this is the line that we present here with minus 2% margin.

We can move forward to page 10 with some working capital (inaudible) and also the net debt. The financial working capital totaled BRL580 million in the end of the second quarter, which was 17% down year-on-year. Working capital represented 28% of the net revenue flat year-on-year, and the cash cycle fell by one day compared to the second quarter 2014.

The operation cash flow was negative by BRL58 million in the second quarter, which was due to the lower net results and increasing working capital consumption. As a result net debt increased by 57 million in the second quarter closing at BRL327 million, this is 90% [ph] lower than a year ago.

Moving forward, we have a new section and a special section in this presentation. In that we are presenting a monetization plan for the tax assets. So, as you can see in the page 12, we have here, we can see that in the recent years, the company has recorded an increase in the tax recoverable in its balance sheet. On June 30, 2015, the balance of this credits reached BRL285 million. This includes federal and state taxes.

We have two factors in the country and these regions differ in regard to the moment that tax is collected. In Parana state, taxes are usually paid when the inputs are acquired for the suppliers. This payment generate credits that may be offset against the taxes on the sale of finished products.

In the free economic zone of Manaus, taxes are not paid when the inputs enter the company. As a result, there is no cycle of credit generation and offsetting. Taxes in Manaus are paid directly at the moment on sale of the products.

On the page 13, we can see some reasons for the accrual of federal taxes. It's good to remember that the IT devices produced in Brazil in accordance with IT log are excellent for federal (inaudible), which is called here PIS/COFINS on direct sales to final consumers. Our direct sales are mostly represented by the Government segments. In the case of indirect sales, the federal (inaudible) the PIS/COFINS must be paid by the manufacturer. Our indirect sales are basically represented by retail and it is our main market. Therefore, an increase in the share of the Government sales in relation to the retail sales can lead to the accrual of federal taxes in Curitiba, because the indirect sales are the main outlet for discrepancies.

As you can see in the table, the share of Government sales varied in recent years, combined with the recent pressures of the retail production of notebooks to Manaus. This is the reason for the accrual of federal taxes. We have two movements. One movement is the increased proportion of direct sales in Curitiba, which is represented by the Government; and the second movement is the increase of the production of the retail notebooks in Manaus, you can see that in the first half of 2015, it reached 20% [ph] of the net revenue.

Well, what are we going to do to reduce and to monetize these assets. In the page 14, we show that to you. The first thing is a merger of the Positivo Amazonia by its parent company Positivo S/A. The Manaus unit will no longer be a separated company and will become a simple branch of Positivo Informatica, forming a single entity and gaining immediate access to the federal credits that we have.

The second step is to transfer the government production to Manaus. The production to serve the government will be transferred to the Manus unit. The table that you can see below shows the impact. In 2014, we paid BRL171 million cash in federal taxes. This

scenario simulated with the initiatives, show that we would have paid only BRL49 million. This is a huge difference on the 122, why this happens?

As you remember, we have BRL130 million in federal tax credits and this enough took over one year of taxes due in the whole sales. That's the reason you can see that we had BRL105 million on taxes due in this simulated scenario, but non-cash disbursement, because this is offset by their credits.

Well, as well as we had credits we won't have any cash paid in finished goods in Manaus.

Page 15, we can see the (inaudible) paid taxes. Well, why are we accrued? What are the reasons for the accrual of the state taxes?

The first one, as I mentioned before, taxes are paid when the company buy the inputs in the state of Parana. We have a lot of movements in 2011 that the ICMS (inaudible), tax reductions from 3% to zero, and then the company subject to accrual state taxes. You can see that this movement happens until the first quarter 2014. In the first quarter of 2014, we decided to trace to Manaus, the production of notebooks for the retail markets. And also we started to buy some components in the state of Parana through distributors. This simple movement, led to the stabilization of the state VIP credits. We can see that between the second quarter of 2014 and the second quarter of 2015, there is almost no tax accrual in the state level.

Well, what are you going to do to reduce and to modify these credits? We can see in the page 16, the first movement is to transfer the Government production to Manaus. If you will, we will have immediately; we'll have lower credits generation in the state of Parana. And also we expect this movement to facilitate the monetization of the accrued balance to the concentration of the taxed operations in the state of Parana. So based on 2014, you can see in the stable, a simulation is in the new planned configuration the difference in favor of the proposed scenario totals BRL26 million for the state taxes.

On page 17, we can put altogether. If you consolidate federal and state tax in the cash flow simulation, the gain in favor of the proposed scenario reaches BRL148 million, based on the 2014 fiscal year. So we had a huge opportunity and we are going to fight and go for it -- already in the fourth quarter of the year, we began to start monetize the federal taxes. So, as of September, the Manaus unit will be a simple bridge of consumer from (inaudible) and in the fourth quarter the Government production will be (inaudible) transfer to Manaus.

So I'm going to open for Q&A session, and then we are going to finish. Thank you very much.

## Questions And Answers

### Operator

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

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

Well, we have a huge challenge in the next quarters, here in Brazil, the market conditions are still tough, but we are reversing a lot of the fixed cost and we expect to go for this plan. We are very excited on the tax, on the fiscal plan and it will bring us a good cash inflow for the quarters and protect us.

Overall in the next year, it's going to be a good year in terms of cash flow and most of their movement will be led by the fiscal bonus that we have especially to the federal taxes that was going to be flat. So, we expect to see you again in the conference call with other results. See you on the next earnings release that will be have in November. Thank you very much and 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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