

## Q2 2017 Earnings Call

### Company Participants

- Lincon Lopes Ferraz, Chief Financial Officer and Investor Relations Officer

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Positivo Tecnologia's Second Quarter 2017 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 Tecnologia'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 [ir.positivotecnologia.com.br](http://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 will turn the call over to Mr. Lincon Ferraz, Positivo Tecnologia's, 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 second quarter 2017. In this quarter, the company recorded adjusted EBITDA of BRL32 million. The main highlight are the following listed in the page two.

The launch of the Hilab, this is an innovative telemedicine service capable of carrying out in minutes over 100 types of Laboratory tests. We had good evolution of the Digital TV Project with gross revenue of BRL176 million in the first half of the year, and also a new batch contracted. So the total volume contracted reached BRL376 million. We achieved an

increase in the market share in PC markets in Brazil in the retail reaching 20%. It is three percentage points up year-on-year.

Our net revenue, I'm going to explain later reduced by 20% to BRL435 million. We had our new reduction of G&A expenses in the quarter when compared to the previous year. Our net income amounted to, close to BRL2 million and net debt totaled BRL240 million with our net debt/EBITDA ratio below two times. Also, we have a partnership with the athlete Neymar Jr to promote the Quantum brand.

So following to page number four. Here you can have more color on the market scenario. The demand for PCs in Brazil increased by 8% in the second quarter. The main progress occurred in the corporate and also in the retail markets. In the corporate, we can see stabilization in this segment after a long period of restriction of investment by the companies. In the retail, the Brazilian government authorized the withdrawal of the FGTS is a fund related to the workers in this year, so provided liquidity to the market.

And in the downside is the government market because of the political crisis that got worse as of May and also the schedules of the main projects this year is concentrated in the end of the year. Mobile phones, the demand was flat year-on-year. But the main highlight is the strong price war among the leading brands. So they concentrated 82% of the total market is -- this is unprecedented in Brazil. So it made the other brands that are not the main brands to dispute only 18% of the remaining market share.

The main company actions was to boost its participation in the retail of PCs. You can see that we reached 20% market share much more than the previous quarters. In the corporate PC market, we had our commercial restructuring in the period and new work strategies. So we accelerated the sales to the SME segment. And as I mentioned, the Digital TV Project that is helping a lot in terms of revenue because the amount to be recognized in the second half is around BRL230 million, it's going to help a lot.

On page five, you can see the market share figures. As I mentioned, the leading brands, the top three brands in Brazil, which are Samsung, LG and Motorola, they amounted 82% of the total market in the second quarter. It's much more than one year ago when the figure was 69%. So you can see in the graphs in the bottom of the page, the price reduction between March and July, these are -- these figures here are the most, the top selling products in Brazil from these three brands. You can see very aggressive price cut. It made our market share reduce a little bit. We closed the quarter with 3.9 market share when compared to 4.6% in the previous quarter.

Moving to page six. We kept the strong control of the fixed cost and also the contribution margin. You can see that the sales margin reached 10% in the second quarter 2017. It is better year-on-year. We had a strong management of the purchase of inputs, avoiding excess inventory and the need for discounts. We had some gains in manufacturing cost and also after sales. In PCs we kept the margins with participation gains. In mobile phones, we also kept the margin, but our participation of our market share reduced. In the fixed cost, you can see a new reduction of 4% this quarter when compared to the second

quarter 2016. This is a reflection of the restructuring that we had in the administrative area.

Moving to page seven. The company outlook for mobile phones. We expect the strong competition to keep, to happen again, in the second half of the year. So we are focusing a lot to boost our sell out in the sales channel. Also, we are increasing our bet in Quantum brand. This is the main expectation of growth. We are seeing some impact given by the partnership with Neymar Jr. And also we have the deliveries of credit and debit machines in the third and fourth quarters that we didn't reduced any sales of this product in the second quarter and this is a big amount around BRL50 million to BRL100 million.

The Digital TV Project, we have over BRL200 million to be recognized between July and December. In the retail computers, we are doing very well, very healthy margins, very good sell-out. So everything is a smooth right now. We expect this to keep like that. In the government, computers for government, we are winning most of the bids. We keep winning over 50% of the bids. And the revenue, as I mentioned is concentrated between September and December.

The joint venture between Positivo and BGH won two new big bids in Argentina. The volume reached 159,000 PCs to be delivered up to December. It's a good news for result [ph] and also we are prospecting new agreements in Africa. So probably we are going to close a new deal in the coming months.

And finally, the medical equipment, as we mentioned, we have a joint venture with Hi Technologies. We have 50% of its shares. They launched innovative service in the quarter. I'm going to explain in the page eight. Here, you can see the picture of the Hilab, the product. This is a big innovation, is a equipment to be -- to be present in the point of sale in drugstores, in doctors and some service points. It has a potential to carry out over 100 types of exams. It's -- it is a virtual lab and provides medical reports in about 15 minutes. So it's very good for doctor because they can eliminate the return appointments. It's very little invasive collection and practically painless because it's only a small puncture in the finger. We have a recurring revenue model with service provision and easy to escalate because it's a virtual lab.

The advantage for doctors, as I mentioned is the no need for return appointments, also differentiation and increase in revenues. For service points, like drug stores, we can highlight the revenue that they can have for providing the service. It's a clear trend in major market. The high speed and simplicity of operation and also the validity is similar to the traditional laboratories. For patients, the most important things are the convenience and time saving. It's -- the cost is lower when compared to traditional laboratories, and as I mentioned is practically painless.

Moving to the financial results on page 10. Here you can see the sales volumes. On the upside, we have the PCs for retail, we grew 11% year- on- year due to market share gains, and tablet sales it increased by 400% due to the deliveries to Kenya in Africa. In the down side was the government deliveries reduced by 68%. This is a very strong comparison basis with the second quarter 2016, when the major project of that year were delivered in

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the second quarter. In this year, the major projects are going to be delivered between September and December. Also the mobile phones, we lost 37% in terms of volume due to competition.

On page 11, you can see the consolidated figure of net revenue reached -- it totaled BRL435 million, it was down 23%. The main reason was a reduction of 54% in the government or BRL100 million reduction. As I mentioned, there is a -- it's a strong comparison basis. In the retail, we have -- we had a 19% reduction due to mobile phones and corporate segment, we grew by 57% because of the Digital TV Project.

The prices, the main project, which is notebooks increased by 1.6% because of better configurations. Desktops reduced by 8% because of lower government deliveries. They have a better price. Smartphones reduced by 9% due to the lower deliveries of credit and debit terminals and feature phones reduced by 7% is coming back to the same level of the fourth quarter.

On page 12, you can see variable costs and expenses and also the fixed costs. The COGS represented 72% of the net revenue. It gives us a gross margin of 27.6%, up two points year-on-year. Selling expenses registered 18%, it was up almost two points year-on-year due to more expenses in marketing to boost sales, to fight the competition in this tough scenario, but we compensated by a reduction in the technical assistance line due to improvements in the operation. The G&A expenses totaled BRL23 million. It was down 9% year-on-year mainly because of the tight control on personnel expense that reduced by 22% [ph] year-on-year.

Page 13 adjusted EBITDA totaled BRL33 million. It has a multiple net debt over EBITDA of 1.8 times below two times very healthy. The company recorded a net income of BRL2 million reversing the loss of the first quarter, but still below when compared year-on-year because second quarter 2016, we recorded BRL12 million of net income. The financial result improved by BRL6 million reducing from 28 million to 22 million, mainly because of less losses with exchange rate variation.

Moving to page 14, we can see the working capital and net debt. Working capital was flat at 440 million year-on-year was flat. The reduction of 30 million when compared to the end of the first quarter was due to better payment terms that we got with the suppliers. It was a big improvement of nearly BRL70 million. You can see in the graph in the right side that our payment term reached 101 days and it was compensated by the increase in the receivables. One year ago, the average payment term was 51 [ph] days, now is 79 days. The main retail chains in Brazil that used to pay their clients with 60 days, now they're paying within 90 days. Net debt totaled 240 million. We closed the quarter with a cash balance of BRL418 million. It's a very strong liquidity.

And moving to page 15, we can see share price performance. In the end of the second quarter, we were up in the month in June 1.5% and in the year, we were down by 5%. Our average number of daily trades increased a lot year-on-year, and also the daily volume in terms of financial volume. It's good news for us together and provide incentives for institutional investors in the share.

So here, I finish. I'm going to open the Q&A section. Thank you.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) At this point, I'm showing no questions. I'll turn the call back to Positivo Tecnologia for final considerations.

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

Well, as I mentioned, we are going to have a second half of the year busy in terms of government deliveries, and also the recovery of the credit and debt terminals. So we expect to improve the results and I'm looking forward to see you in November, when we are going to disclose the third quarter results. Thank you so much.

### Operator

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

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