

Q1 2014 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 First Quarter 2014 Earnings Conference Call. Today, we have with us Helio Rotenberg, Chief Executive Officer and 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 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. 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 belief 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 Ferraz, Positivo Informatica's Investor Relations Officer. Mr. Ferraz, 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 first quarter 2014 where we recorded an adjusted EBITDA of 38 million. We can move to page five of the presentation where we can see that the Brazilian market for hardware device showed a mixed performance with a decline in computers deliveries and strong growth in the categories of tablets and smartphones.

Regarding the computers, desktops did well because of the sales to companies and other clients but multiple registers have reduction due to global reduction in the retail channel related to the accumulation of inventory remaining at the end of the year. This

fact was amplified by the lower turnover of products in stores with the change in the focus of retailers.

The concentrated efforts on the sale of TVs, take out the advantage of the upcoming World Cup. So during a difficult quarter, we are summing an increasing in the proportion of our desktops in the relation to notebooks and increasing the average configuration.

In regard to tablets, we're maintaining a rapid growth trajectory. There is a significant demand for these products given that the first purchase cycle remains robust among the middle class, remains for those among in which penetration of the form factor is still too low.

Slower growth is taking place in the smartphones. The rapid changes in the needs of consumers created a strong demand for devices in this category. In Brazil, the process of migrating to smart device has also been favored by the lower price of 3G mobile Internet due to the competition between operators for subscribers to postpaid services.

On page six, we can see the profile of our sales. We have a reduction in computer of 21% year-on-year. Sales were impacted by the inventory levels in the retail chains on the selling -- sales were not that good in the first quarter. Tablets grew by 11% to 106,000 units. We had a good growth in the retail chain of 150%. So this is a good performance for tablets right now.

Mobile phones grew almost 300% and the smart phones were very, very good with 122,000 units in the period; this is nine times year-on-year. We can see that sales in the retail chain dropped by 35% [ph], in the government, we have an increase of 22% and corporate, there is a flat performance. For the 2014, we have a portfolio for government clients of around 50,000 tablets and more than 800,000 PCs. So it's a very strong portfolio and should be concentrated in the second quarter.

Moving forward, page eight, we can see the breakdown of net revenue in the first graph. We are very happy because we saw 10% of the net revenue is comprised by tablets and 6% for mobile phones. Net revenue stood at 600 million, it's flat -- almost flat year-on-year, but the important thing is that we managed to grow in the (inaudible) market such as the mobile device.

We have another quarter with increase in desktop prices from the third quarter effective. So we have 18% [ph] now in the first quarter and 1,700 each desktop, notebooks are almost flat, a small increase and the greatest increase was in mobile phones because of the larger proportion of smartphones in the period.

Page nine, we can see costs and expenses. Gross margin stood at 20% in the first quarter. We had an increase in the (inaudible) prices for companies, which reached (inaudible) each dollar, 5% up from the first quarter.

Our COGS was also influenced by the increase in the nationalization quarters for companies provided by the B2B obligation in the IT law in Brazil. So we had more HDDs, more network cards, more AC/DC adapters. So when you buy in Brazil, it's more expensive in relation to the China producers. Selling expenses was 14%. We can highlight to you that we had only 3.7% in marketing expenses. It is flat in the first quarter because of the larger proportion of government in the quarter.

G&A expenses totaled 30 million [ph] in the first quarter. We recorded higher than average R&D expenses, included in the others line in the amount of 5 million together with 2 million in extraordinary consulting expenses.

Page 10, you can see the operational results. We have 38 million in the first quarter adjusted EBITDA, 38 million, it is 22% up year-on-year. The margin expanded to 6.3% driven by the advances in average PC configurations and that's due to prices from dollar exchange rates variation. Net income was 1.1 million [ph], down 90% due to the increase in the financial expenses in the period. So the financial result was a net expense of 18 million, which recorded more expenses due to the increase in interest in the company's higher net debt as well as the exchange valuation result, which was negative by 4.5 million in the first quarter versus a positive R\$400,000 one year ago.

In the page 11, you can see the cash flow. Operational cash flow reached 13 million in the first quarter. This is down 86% year-on-year mainly due to the inventory build-up. We had a concentration of government deliveries scheduled for the coming months. So we expect that the influence of cash will be concentrated in the second half of the year.

Page 12, we can see some working capital metrics. In the first graph, left, it's clear that the impact of inventory levels on the cash conversion cycle increased 13 days year-on-year to 122 days. In regards to the debt, the cost margin [ph] was 390 million, being 50% [ph] represented by BNDES financing line. We recently approved the first debenture issue in the amount of 100 million. This money will come to our cash in the second quarter; it's not showed here yet.

Page 13, investments. We reduced CapEx by 70% [ph] year-on-year to 6.5 million, most of the resources were related to R&D activities and also we had some improvements in the ERP system related to the fiscal area. We also -- in the factory, in Curitiba, we managed to spot some production lines in serial lines.

So I thank you for participation. We can now start the Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) Thank you. We are showing no questions at this time. I'll turn over to Positivo Informatica for final considerations.

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

Thank you. Well, I would like to highlight that we have an excellent progress of the strategy of increasing mobile device sales. So now we need to address the liquidity of the company, which is expected to increase through the working capital optimization. The first thing, it's important to highlight, we had substantial increase in mobile phone sales, especially smartphones. They were presented around 6% of the net revenue in the first quarter. Also, we experienced a strong growth in tablets sales in the retail market. It is the main sales channel in Brazil, considering the Brazilian customer positive reaction to our product line.

We have an expectation of new projects for government markets in regards to tablets. So we have right now a large deal of over one million tablets happening. We don't know if we are going to win, but we are very optimistic about it.

In relation to government portfolio that we already are sure about the volume, we are estimating 800,000 computers and 6,000 tablets to be delivered from January to December 2014.

And again, our focus right now is to normalize retail (inaudible) and get optimized the working capital. So, thank you very much. We see you on the next conference call. 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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