

Q1 2018 Earnings Call

Company Participants

- Lincon Ferraz, Financial and Investor Relation Officer

Presentation

Operator

Good day, ladies and gentlemen. At this time, we would like to welcome everyone to Positivo Tecnologia's 1Q'18 Earnings Conference Call. Today we have with us, Lincon Ferraz, Financial and 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 and MZiQ Platform. The slide presentation maybe downloaded from this website and 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 (sic) 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 would like to turn the call over to Mr. Lincon Ferraz, Positivo Tecnologia's Financial and Investor Relation Officer. Mr. Lincon, you may begin your conference.

Lincon Ferraz {BIO 18660463 <GO>}

Thank you. Good morning everyone. We are here to present the results for the first quarter 2018, when the company posted a 62% growth in the PC sales in Brazil. We have been facing a continuous recovery of demand in the country with a total market growth of 20% in the quarter.

Positivo Tecnologia surpasses this performance with a 62% growth in terms of volume of which 57% in retail, 77% in government and 63% in corporate. So, we grew in all the

segments that we have in the PC business. This resulted in a strong increase in market share of 4 percentage points in PCs in Brazil during the quarter. In the other hand, mobile phone market is still very competitive environment and the sales are concentrated on the three largest manufacturers.

The company posted net income of BRL2 million in the quarter, reverting the loss recorded in the previous year. And two highlights, special highlights, the first one is the market entry of accessories for electronics and audio devices, in partnership with Anker. Anker is a brand with strong presence in the USA, Japan and Europe.

Finally, the sponsorship agreement with Corinthians, is the one of the biggest soccer teams in Brazil and which should generate more visibility for the brand.

So, following on page four, here we have some color on the PC segment as a whole, basically we have the continuity of demand recovery, following the consumption and credit indexes. As I mentioned, PC market grew 20% in the quarter. The consumer confidence is in the highest level in four years in Brazil. So, as you can see in the graph, in the left side below.

In addition, the company tried to capture this momentum [ph] and grew more than the market, especially with laptops with better configuration. So, the Intel Core product line, the VAIO brand, these two categories grew a lot in the first quarter. Our market share reached 17%, a 4 percentage points more than the 13% figure that we had in the first quarter 2017.

In the graph, in the right size below, you can see that the laptops with mid and high configurations represented 32% of the revenues of laptops in the retail in Brazil. This is very significant growth, we are focusing more in this category and we see more room to grow in Brazil because the market is -- the market for mid and high configurations is bigger in Brazil, when compared it with the entry-level segment. So, we are focusing and getting good results.

On page five, you can see the mobile phone market. The price war among the leading brands continued in this quarter. As you can see in the first graph in the left, the top three brands, they consolidated like they have 81% market share in Brazil. This was around 70% in 2016. So, the room for other brands reduced by one-third, from 28% to 19% and our market share reduced accordingly, so it was in the peak of 5% in the first quarter 2018, now it's around 3%.

And here we have some graphs of the top selling smartphones in the country. And just three brands, you can see the price cut year-on-year, so in March 2017, June, September, December and March 2018, you can see that all the top selling smartphones, they had their price reduction.

Moving to page six, here we have more detail on the Anker agreement. So far as represents market entry in the accessories business. This is a business that's growing fast in Brazil and they have better margins, when compared to PCs and smartphones. Anker is

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a very consolidated brand. It's present in 70 countries and have relevant market position in USA, Japan and Europe. It's started selling power bank brands and also in the earphone Bluetooth product line, it's number one in Germany.

We have exclusivity until 2024 with a possibility of being renewed and our sales will be direct from the website www.ankeroficial.com.br. We have also be present in marketplaces and also in the retail stores. We are very excited with this partnership and we will try to repeat the success of Anker in Brazil, just like they have in the main segments, in the main markets like USA, Japan and Europe.

Moving to page seven. Here is the sponsorship with Corinthians. We have a contract until October. We have an extension option until December 2018. The team is doing very well in the competition this year. So, it's very possible that we will opt to extend our contract. This soccer club has around 30 million fans. This is one of the largest fan base in the world and we expect a strong brand exposure on primetime TV and top tier media channels.

Moving now to page eight. This is the company outlook. The PC business in the retail, we see continuity of the retail sales growth based on consumption and also the credit indicators. There is one issue with the pass-through on prices of the recent dollar appreciation, we need to do that and it's very tough, the discussion with the retailers.

In the government, we have an expectation of higher revenue in 2018 because the public bidding in Brazil is bigger this year than it was in 2017, and our winning ratio is stable, so we expect more revenue.

Mobile Phones; our sales performance in the second quarter, and in the next quarters will be very linked to the vicinity of the competitors. So, we expect them to be less aggressive, so we should improve sales and also in this segment, we have the issue of the pass-through on prices of the dollar appreciation.

In terms of cash generation, we have an increase in net debt in March 2018 because of the working capital needed to face the sales growth that we are expecting and we expect this to normalize in the end of the year.

Our joint venture with Hi Technologies is in the final stage of discussions with investors for a new fundraising round. We expect to close this deal in the coming month and so we will have some news on this side.

And Digital TV Project; we increased for cash to 125 million, from 70 million, after being declared winner of the last round promoted by Seja Digital, which is the final client.

Moving to the financial results page 10. Here you can see from graphs sales volume, the PC sales increased a lot, as you can see both in retail, government and corporate, it was boosted by Brazil. Positivo brand grew by 62% and other regions, where we operate with Positivo BGH brands were flat year-on-year.

Tablets sales in Brazil, we almost don't sell tablets. We sell only for corporate clients. Positivo BGH sales of tablets reduced by 59% because of the Kenya project that's in the first quarter 2017, we were delivering educational project in Africa and now we don't have this.

Mobile phones as I mentioned, we have reduction of 53% in smartphones driven by the competition. The first quarter 2017 was the last quarter before the price cut of the main players. You can see that in feature phone, the sales were almost flat. We don't have this competition in feature phones. We expect in the coming quarters to have a better comparison basis because as of the second quarter 2017, the sales were in the same level that we have in the first quarter '18.

Page 11; net revenue totaled 429 million in the first quarter, it was 5% less, when compared year-on-year, mainly because of the mobile phone sales. This also impacted the retail revenue, which reduced by 13%. If you analyze all the PCs in the retail, the net revenue would have increased by 57%. The average prices you can see a reduction, mostly because of configurations, except for the notebooks. In the notebooks, we have a 13% increase due to the better configurations profile that I mentioned.

Page 12, here we can see some the operational results. The sales margin reached 9% in the first quarter. This is next to the historical level. When we compare with the first quarter 2017, we have a reduction of 2 percentage points, driven by the higher proportion of mid and high-end laptops, which has a lower margin and also the discounts that we applied on mobile phone sales to strive in competition environment. If you take a look at G&A expenses, it was small reduction of 2%, when you compare the recurring expenses and the total, it was a reduction of 9%.

Moving to page 13, adjusted EBITDA closes the quarter at 23 million. It generated a multiple net debt over EBITDA of two times, very conservative. Our financial result was much better than one year ago, mainly because the exchange rate variation, which were 14 million negative last year and now it was neutral and also the cost of debt that reduced a lot from 18 million to 8 million. Most of our debt is linked to the basic interest rate. So, all the reduction that we had in the last month, we can capture here. And also we are carrying less cash, so that the cost to carry cash reduced a lot. This helped us to generate a net income of 2 million, reversing the loss that we have one year ago.

Moving to the final page 14. Working capital increased by 54 million, when compared to December 2017, mostly because of the working capital needed to face the better sales that we are forecasting for the coming months. You can see this in the inventories discounted by the suppliers, increased by 88 million. So, we purchased more components because we need to sell more in the coming months. Net debt included accordingly by negative BRL90 million to BRL235 million.

So, I finished my presentation here. Thank you very much for your attention.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) And there look to be no questions at this time. So, I will turn the call over to Positivo Tecnologia for final considerations.

A - Lincon Ferraz {BIO 18660463 <GO>}

Well, that's it. That it was a better quarter with bigger sales volume purchase. We are motivated for the year and we have an issue with the dollar appreciation and we need to deal with this with retailers, but overall it's a good perspective. Thank you very much and see you in the next conference call. Bye-bye.

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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