

Q3 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 Third Quarter 2015 Earnings Conference Call. Today we have with us, Lincon Ferraz, Investor Relations Officer.

We would like to inform you that parties will be in 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 at 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 third quarter 2015. On the page three, I highlight the following results of the period. We recorded strong growth in the mobile phone sales, we moved forward [ph] by seven times the results of the previous year. There was a continued reduction in G&A expenses, I will explain that in the presentation. We are on schedule with the tax asset monetization plan. We have a start-up of operations in Africa. We have launched a strategic partnership

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agreement with VAIO Corporation. We have the start-up of the Quantum new business units. And also we have two new Positivo smartphones.

On page 4, we can discuss some something about the landscape. The market scenario, as the demand strongly impacted by the decline in the consumer confidence. Here in Brazil, we have the ICC, the consumer confidence index measured by the Fundacao Getulio Vargas, it reached the lowest level ever in the third quarter due to concerns in the population about the politics and employment levels. There was a great impact on the purchase of high-ticket items, which are usually financed. So the PC market shrank by 38% in the quarter and the smartphone segment started to fall sales.

The profitability of the industry continued to be impacted by the appreciation of the dollar. 90% of the cost of the devices is linked it to the dollar. And the weak demand made price pass-throughs harder and generated some inventory build-up in the sales.

The company tries to mitigate these effects by increasing its market share in mobile phone market, and also with discounts in the long-standing inventory items. We have three major future revenue diversification plans. The first one is in Africa, we began to deliver the educational laptops for Rwanda Ministry of Education. We launched the partnership with the VAIO Corporation. We are beginning to operate in the high premium segment. Also we launched the Quantum, is our new business unit focused on direct smartphone sales.

Also we are -- with cash generation and cost reduction projects. The first one is the reduction in G&A expenses, we recorded 27% decline year-on-year. We have another program of extending international supplier payment terms. We launched our program to control excess inventory. And also we have the program of tax assets monetization plan with the merger of Positivo Amazonia and the migration of the PC production to Manaus.

On page five, we can see the impact of the market on our sales. We can see that PC sales fell strong in the retail and corporate segments, 48% in the Retail, 36% in the Corporate segment. And the government sales in terms of volume is flat year-on-year. We recorded some growth in the tablets sales because of the promotion we had in the period, in the long-standing inventory items. And mobile phone sales we have near seven times more sales this quarter than the same quarter in 2014. So, mobile phone sales reached 307,000 [ph] units, half of which is smartphones.

In terms of growth, we can see in the graph in the right below, we see that the crisis is mainly impacting our sales in Brazil. In Argentina, we recorded over 100% of growth year-on-year, reaching almost 200,000 units in the quarter.

If you can move to page six, where I can give you more color on Quantum business unit and also in the partnership with VAIO. The Quantum business unit is focused initially (inaudible) direct sales to consumers via online store, you can access that at www.meuquantum.com.br. And also marketplaces with the major retail chains. The focus of the brand is for people that know about smartphones are more expert users, because we are delivering a lot of value with a good price. So you can see that this smartphone

here Quantum GO have five inch screen, Amoled screen, it's up True OctaCore processor, 2 gigabyte of memory and so on. It's a very good device in the intermediate class with around 20% discount on its peers.

The VIAO brand is focused on the production and sales notebooks in Brazil. VIAO will remain responsible for developing the product, so there will be no increase in our internal structure. And the main launch of this first quarter is the Fit 15F line, which is a 15.6-inch HD screen, it comes with 5th generation of Intel Core i processors and also with Windows 10.

Moving to the financial results. We can see on page eight, our net revenues dropped by 17% year-on-year, reaching BRL440 [ph] million. In the first nine months net revenues totaled BRL1.350 billion [ph], which is 21% less than the same period last year. Most of the reduction took place in the Retail segment and also in the Corporate segment with decreases of 27%. The Government segment is the only one who moved up by 13%, because of the resumption of the government deliveries this year and is expected to keep the strong in the fourth quarter.

It's interesting to see that mobile phone revenue is now is currently 33% of the retail net revenue. Average prices moving up, this is the third consecutive quarter moving up. Desktop moving by 2%, notebooks by 4%, basically due to the best price of the dollar appreciation. We have a 5% reduction on average tablet prices due to the promotion of the long standing inventory items. And also we have an increase of 5% on mobile phones. This is due to the increased proportion of smartphones in the sales mix.

On the page nine, we can see the gross margin stood at 80%. This is two percentage points below the second quarter of 2015. Here we can see the effect of the dollar appreciation, because 97% [ph] of the raw material and components are pegged to the dollar. We compensated that with the financial results, as I'm going to explain in the next page with the hedging policies. But in terms of the operational results there is a huge impact. The selling expenses remain at flat year-on-year and also quarter-on-quarter. But there is some interesting changes between lines. We recorded an increase in the marketing expenses due to the -- some efforts to promote the product turnover in the stores [ph] and also with the launch of the Quantum business unit.

We had a reduction in the orders line, this is basically due to lower level of commissions, you know, I mentioned that we have a strong promotional of products in the quarter and this promotion didn't bring normal level of commission. It was a lower level. G&A expenses fell by 27% year-on-year reached BRL23 [ph] million. This reflects the measure to reduce the fixed cost and also the revision of provisions for variable compensation. We had an impact of layoffs in this quarter of BRL2 million, if I exclude this impact, the third quarter 2015 would be at the same level of the second quarter at BRL21 million.

Moving forward, page 10. We can see that our adjusted EBITDA reached BRL10 million, this comes with a margin of 2%, this is below our historical levels, and this is the direct impact of the dollar appreciation. We had some recovery in the financial results, why? Because it came positive by BRL8 million, it was -- thanks [ph] to exchange gains variation gain of BRL22 million.

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So as I mentioned before, we had a huge impact on the COGS, partially compensated by gains from the hedging policy. The hedging policy gave us a result of BRL61 million a positive results, and it was compensated by a net loss of BRL38 million on the accounts payable. So adding the two things, we have the line exchange variation positive by BRL22 million. All in all, we have a net income of BRL1 million, it was helped by the financial result and also by the equity income line, which represents the results from Argentina and from Rwanda, because these two operations are joint ventures that we have and we do not consolidate in our results.

So, moving forward, working capital closed at September 30 at BRL480 million, this is BRL100 million lower than what we saw in the end of the second quarter 2015. This is due to the measures adopted by the company to optimize the employed capital. And also the normalization of the government client payments that were up outstanding by the second quarter.

We have a higher cash generation in the quarter and led [ph] to a BRL33 million reduction in the net debt when we compared to June 30, 2015. The long-term financing portion reached 69% of this net debt due to two new lines that we took in the quarter. The first one is FINEP, is our seven year line with subsidized taxes and also we have BRL60 million from (inaudible) is a local bank, and it's a three years financing line with mostly payments.

Well, we are open now for Q&A section, and I hope to see you again in the next conference call. Thank you.

Questions And Answers

Operator

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

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

Thank you. Well, as you saw, it was a tough quarter and the fourth quarter we are making the last best on the prices [ph] of the dollar appreciation. We can see that that volumes are getting stable and the pricing policy of the company is getting stable. We should be in normal levels in the first quarter 2016. We also have in the working capital and expected reduction in the inventory line should be achieved by the second quarter of 2016. So, there is a lot of cash inflow expected together with the tax asset monetization plans from the project of Manaus. So we expect you guys in the next conference call. See you, 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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