

## Q2 2018 Earnings Call

### Company Participants

- Lincon Ferraz, Financial and Investor Relations Officer

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to Positivo Tecnologia's 2Q'18 Earnings Conference Call. Today we have with us; Lincon Ferraz, Financial and Investor Relations Officer.

We would like to inform you that 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 will 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. And please note that today's event is being recorded.

I would now like to turn the conference over to Mr. Lincon Ferraz, Positivo Tecnologia's, Financial and Investor Relations 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 from the second quarter of 2018. In the period, we saw a continuous recovery of demand for PCs in Brazil. The market grew by 12% year-on-year. Positivo Tecnologia surpasses the market performance with a 35% growth in the same period. The growth occurred in all the segments; in the retail, we just had 22% growth year-on-year, 57% in government, 63% in

the corporate segment. Because of that, our market share increased by 3 percentage points in Brazil, reaching 18%.

In the mobile phone market, the highly competitive environment continued. We saw the sales concentrated in the three major manufacturers. Our margins were impacted by the US dollar appreciation, and we are passing through the prices (inaudible), but in the second quarter it was not enough to protect the margins. Our net debt closed the quarter with R\$200 million, 14% down, and in our investee Hi Technologies received an investment of R\$15 million from Monashees and Qualcomm Ventures.

Going to page number four, here we have some color on the market scenario. The PC segment in Brazil grew by 12% in the quarter. We can see that since 2016, the market has been growing 5% between second quarter 2016 to second quarter 2018, and 12% this quarter, compared to the second quarter of '17. Our market share reached 18%, this is the highest level in two years, you can see in the graph in the left side below.

And, in mobile phone, the market grew by 7%. The three largest manufacturers, you can see in the graph below, they have 82% of the total market. The yield [ph] from other manufacturers is only 18%, so it is very tough. Our market share was 2.6% in the quarter, if we compare it one year [ph] ago it was 5%.

Going to page five, here we can see the impact on costs that damaged our stability. And you can see here in the first graph, the exchange rate close to R\$4, it came from 3 and (inaudible) and the positive (inaudible) from hedges to mitigate these effect, it has to pass-through [ph] the price in the second quarter (inaudible) . So we can see that our sales margin dropped to 4.6%, coming from 10% one year ago.

Hello sorry guys, we had some trouble with the connection. Coming back to page four, here you can have some color on the market scenario. For computers, as you can see in the first graph, the trend is very favorable, the market is growing since 2016.

You can see that in the second quarter of '18, we had 1.4 million units sold in Brazil, it is above the usual rate, so

it's very healthy sales in the country. And Positivo sold more, it did more in the increasing market and reached 18% in the second quarter, 3 percentage points more than the market share we had in the second quarter of 2017. In the mobile phones, the market also grew, 7.7%, but here we have the issue of the highly competitive environment, with the three largest manufacturers concentrating 82% of the total market.

If we compare to the 2Q17 [ph], it's about 74%, and because of that our market share contracted to 2.6% in the period. If we compare it to one year ago, Positivo had 4% in the second quarter 2017.

On page five, here we can see the impact in the profitability from the increase in the cost. The first and more important is the exchange rate. The Brazilian currency devaluated a lot

since the end of the first quarter. We can see that the (inaudible) effect was close to R\$4 for each dollar, and we had to pass through to prices, and it was not enough in the period to protect the margins.

Also, we had a strong increase in the memory cards prices. This is a phenomenon that happened in all the world, prices have doubled from 2015 [ph] on, and this effect is mainly in the sales that we price in advance, such as the government bids.

So if you can see that the sales margin dropped to 4.6%, mainly because of the impact of the effect, and also, in the case of the government, the memory card's prices.

We believe that in the end of the third quarter, the prices for the industry should have (inaudible) the sales channel have been concluded, so we expect a margin rebound in the second half, 2018.

On page six, we have more details on the transactions that Hi Technologies was involved. This company received an investment of R\$15 million. The new shareholder are Monashees and Qualcomm Ventures. They have together 32% of the company, and also we created an option pool representing probably half percent of the capital of this company, focusing in future share basis (inaudible).

We think that this capital injection is going to be very helpful for Hi Technologies, and they will have more strength to bear its expansion.

Moving to page eight, here we have some figures in the volume. You can see that in the PC sales, they were very healthy, growing in all the segments. Retail 8%, government 55%, corporate 58%.

When we analyze for brand, we can see that Positivo Brazil grew by 35%, compensating the reduction of 49% in Argentina, with Positivo BGH.

In mobile phones, (inaudible) the volumes in the smartphone segment were compensated with feature phones. If we analyze both of them together, the volume would be flat year-on-year.

On page nine, the net revenue reached R\$485 million, it's about 12% [ph] up year-on-year. Again, we can see the growth in the government. In the corporate segment we had a reduction of 32%, mainly caused by a project that we had last year related to set-top boxes and from very strong volume in the first half 2017, and this year we have this project, but not so good. That is why the revenue in the segment is little [ph]. But if we analyse all this, as I mentioned, it was during the last (inaudible) corporate deposit.

Average prices, you can see that they are virtually flat from the first quarter to the second quarter, (inaudible) impact the prices in the cost. You can see this happen in the third quarter, so we should see in the end of this year the margins recovering.

FINAL

Moving to page ten, we can see the COGS and sales expenses. COGS was higher due to the US dollar appreciation, reaching 76.9%. Sales and expenses also improved to 20%, this time because of the aftersales, which improved from 3.9% to 5.6%, mainly caused by the higher concentration of government revenue this period.

Also, we have provisioned for clients in the other lines in the sales expenses, we had R\$8 million of provision for clients this quarter.

G&A expenses was flat year-on-year, when we consider the recurrent line, which is personnel and other expenses. In the total, it was 22% [ph] up, mainly because of the higher expenditure in R&D.

On slide 11, operational results, it's about R\$8 million EBITDA, with a margin of 1.6%. We reported a net loss of R\$11 million. In the (inaudible) financial result we have an improvement, both because of the exchange variation of approximately R\$4 million, and also the cost of debt that reduced from R\$17 million to R\$11 million. This is because of the reduction of interest rates in Brazil, and also the lower cash position that we were carrying and less loans from banks. So we have a better cost of debt this year.

Moving on to page 12, the results of working capital. We closed the quarter with R\$375 million in working capital, and net debt reduced by R\$30 million, reaching R\$207 million.

That is it. Thank you so much for your attention. I will open for the Q&A session.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions). Okay, and there looks to be no questions at this time, so this will conclude our Q&A session and today's conference call. Thank you for attending today's presentation and you may now disconnect your lines.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

