

Q2 2020 Earnings Call

Company Participants

- Caio Moraes, Chief Financial Officer & IRO

Presentation

Caio Moraes {BIO 18682110 <GO>}

Good morning, everyone, and welcome to the earnings call of the second quarter of 2020 of Positivo Tecnologia S.A. My name is Caio Moraes. I'm the company's CFO and IRO, and I will lead you through this presentation.

So starting right now at Page number 2, talking about our highlights, the second quarter highlights. Domestic market recovers and accelerates demand for PC with home office and homeschooling. The new need of families has increased the number of PCs per household with a tendency to migrate from one PC per family to one per person. We also saw a strong exchange rate volatility affecting part of our profitability in this quarter, but despite this, there was a reduction of BRL108 million in the company's net debt, reaching BRL151 million in the second quarter.

June performance was better than that of May, which was higher than that of April. The market showed a strong recovery with the reopening of stores and the return of activities in various sectors of the economy in parallel with the growth of the domestic market. In terms of electronic voting machines, Positivo won the TSE bid and will provide electronic voting machines for the 2022 elections onwards.

We posted a net revenue of BRL441 million in the second quarter of 2020 or is 20% less than the same period of 2019 and in the first half of 2020 of BRL819 million, what is 9% below the same quarter of the last year. We posted as well a net income of minus BRL8.6 million in the second quarter and minus BRL4.2 million in the first half of the year. These losses partially reflect an initial strategy for preserving and strengthening of our cash position at the expense of growth given all the market uncertainties we were experiencing, especially in the first two months of the quarter.

In terms of core business, what we saw was an acceleration of retail PC sales in May and June and the other channels showing a slower recovery pace. The volumes in the second quarter, we can summarize as follows, retail increased 2.7%, whereas public institutions dropped 42% and the corporate segment 32%. The Hi Technologies company grew significantly in the second quarter with the development of sale of rapid tests for COVID-19, recording a revenue of BRL55 million in the second quarter. In terms of the servers business, this business unit grew 28% in the second quarter, recording a net revenue of BRL39 million. It's also a highlight.

In the IoT segment, the Positivo Casa Inteligente business is now one of the bestselling items in the category of Brazilian e-commerce in the second quarter, recording sales of BRL4.6 million.

If we move to the next slide, Slide number 3, talking about the PC market in 2020. The total PC market in Brazil decreased 13% in the second quarter, mainly due to lower sales in the corporate channels and the public institutions, which suffered more from the crisis and have a slower recovery after a negative peak in April. In the six-month period, there was an increase of about 0.8%.

The retail market showed an accelerated recovery at the end of the quarter, despite modest numbers in April. After applying measures to close stores and social distancing, the movements of home office and homeschooling contributed to an acceleration of sales in the period. Several families that previously had a computer per home realized the need to increase this quantity of about one device per person. This movement generated growth of 10% in May and 18% in June when compared to the same period of 2019. In the consolidated quarter, there was an increase of 3.6%. Thus Positivo's market share remained resilient at 12.6% in the total market and dominant in entry level notebooks with a 79% market share.

In the next slide, talking about the cell phone market in the second quarter. This market was impacted by the effects of the COVID-19 crisis with a reduction of 31% when registering 9.6 million units sold and a reduction of 18% in the first half of the year with a total volume of 21 million device sold. The behavior of cell phone sales confirms the preference for PC purchases in the period, in addition to supply limitations we had due to the closing of factories in China. In our case, we recorded a 2.6% market share in the second quarter. The entry-level devices, where we really have a big share of the market and the price range is lower than BRL300, where we had a greater impact with the crisis due to the closure of the physical stores.

In the next page, Page number 5. Talking about the growth avenues, servers and hardware as a service. The servers unit had a great performance and posted BRL39 million revenue in the second quarter, what is an increase of 28%. In the six-month period, the revenue was of BRL69 million, also growing 28%. And the hardware as a service remains a great business and may benefit from an upturn in the corporate market in the months to come.

In the next slide, talking about IoT and educational business. We see a consumption -- a growing consumption of products for home and decoration. The demand due to the social distancing in that period increased and that was done through our e-commerce channel. Positivo's Smart Lamp is one of the Amazon's best sellers, just as an example. And in the Educational Technology business, we'll benefit continuously from the homeschooling phenomenon by providing teaching solutions for schools.

In the next slide, Slide number 7, we talk about our industry Hi Technologies. So this industry is one of our corporate venture industries. It had a great performance with quick test for COVID-19 and posted us a revenue of BRL55 million in the second quarter and

has also brought backlog of contracts to be delivered in the next periods. So we expect this to thrive in the next months as well.

Now moving to the financial highlights in Page number 9. Talking about the sales volume. As highlighted before,

we had a second quarter with a total sales of 177,000 units of PCs, what represents a drop of 13% in relation to 2019, with the result of a growth in the retail of 2.7%, combined with a drop of 42% for the public institutions and 32% for the corporate markets. Cell phone sales followed the market downturn in the second quarter. The volume -- the total volume was 221,000 units, a reduction of 54%, what is a result of a drop of 55% in smartphones and 53% in feature phones.

Moving to Page number 10, talking about our net revenue. We recorded BRL440 million in the second quarter,

which represents 20% drop against the strong comparison basis of the second quarter of '19. Among the segments the variation was 22% drop in retail, 10% in public institutions and 26% drop for corporate and other businesses. The biggest variations in product mix in the second quarter were in the notebooks, which represented 49% of the consolidated revenue as a growth and servers with 9%, which is a growth as well, and the positive highlight is once again the servers, which shown recovery growth and in the second quarter grew 28%, registering a revenue of BRL39 million.

In the next page, talking about our operating expenses, G&A and financial results. The same expenses in the second quarter totaled BRL61 million, a reduction as a percentage of net revenue, what is completely explained by the lower sales reduced in the same quarter in the segments such as public and corporate institutions. The G&A grew by 8%, but excluding all the extraordinary expenses we had by preparing the plans and our activities for the COVID crisis and mandatory investments in R&D, we would have posted a saving of 7% in that line, totaling total expenses of BRL10 million.

And the financial result was negative by BRL8.5 million, what represents an improvement of 62% against the same quarter of 2019, mainly due to the gains with FX of BRL6 million in addition to the reduction in financial income and expenses following the drop of the Brazilian basic interest rate, specifically.

In the next slide, we talk about EBITDA, net income and net debt multiple. We saw our second quarter 2020 EBITDA returning to a positive field, registering BRL7.9 million and in the six-month period an EBITDA close to nil and this is mainly due to the strong depreciation of the exchange rate, as explained before, as well as the lower sale basis we had in the second quarter of 2020.

And in terms of exchange rate, it's important to highlight that the transfer of prices was more relevant in the last month, especially in the month of June. We had -- we suffered from the higher exchange rate with no pass-through in the months of April and May, along with the additional brands that market showed mainly in the retail sales. And additionally,

the second quarter result also reflects, in part our initial strategy to preserve cash, given the market uncertainties that peaked in April.

On the right side, we had a significant reduction in the net debt in the second quarter of more than BRL100 million with the maintenance of debt multiple of 1.7x despite a significant reduction in EBITDA. The reduction, once again, along with the impact of the follow-on we had in the first quarter of 2020 is mainly due to the partial normalization of our receivables flows, which were postponed at the end of the first quarter after the beginning of the restrictive measures of COVID-19.

Now we reached at the end of our presentation. We are going to open up for questions and answers.

Questions And Answers

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(Question And Answer)

Since there are no questions and answers, I would like to thank you again once more for your participation in this earnings call. I hope that all of you do well. A good afternoon and evening to everybody. Thank you very much.

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