

## Q1 2015 Earnings Call

### Company Participants

- Lincon Lopes Ferraz, Investor Relation Officer

### Presentation

#### Operator

Good day ladies and gentlemen. At this time we would like to welcome everyone to Positivo Informatica's 1Q15 Earnings Conference Call. Today we have with us, Lincon Lopes Ferraz, Investor Relations Officer.

We would like to inform you that this will be a listen-only mode during the company's presentation. After Positivo Informatica's remarks are completed, there will be an opportunity to ask questions. At that time further instructions will be given. (Operator Instructions)

We have simultaneous webcast that may be accessed through the company's website [www.positivoinformatica.com.br/ir](http://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 the 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's 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. Hello everyone. We are here to present the results for the first quarter 2015, when we recorded a net income of BRL11 million. We can move straight to the page number five. We can see some -- something about the market. Volumes were low in the

FINAL

Bloomberg Transcript

opening months of 2015 in Brazil. Economic slowdown covered by the declining consumer confidence reduced product turnover in the retail market especially in January and February.

The main institutes that monitor the market estimate that sell-in volume will fell by 20% year-on-year. The exception has been the mobile phone market.

Despite the economic crisis, smartphone sales are expected to present double-digit growth in 2015. In the first quarter, the research institutes reported 25% growth in the smartphone market.

In line with the market performance, our PC sales fell, especially due to the 50% decline in deliveries to the government, which is worth noting that the base of comparison, which the previous year is strong, as it represents the company's quarterly sales record in this market.

In retail, we made price pass-throughs to offset the dollar appreciation here in Brazil, which restricted sales, especially of entry-level products. In the corporate market, we recorded a good performance with growth of 13% in PC sales.

The mobile phone market also made progress in the first quarter, benefiting from the more favorable scenario for these products. Our sales grew 50% year-on-year and we expect to continue growing in the coming months, as a result of a major marketing campaign run as of April on TV and online media. We recorded a positive financial result thanks to the foreign exchange hedge policy. The company closed the first quarter with a good cash position and a reduction in net debt, as we are going to see in the next slides.

Moving to page six. We can see -- we can have some color on our sales. Mobile phone sales totaled 200,000 units in the first quarter, 15% up year-on-year. 120,000 of which were feature phones and 77,000 is smartphones. Revenue for smartphones is expected to post a good recovery in the second quarter because of the market campaign that I mentioned.

PCs were 33% down from first quarter 2014. The volume was impacted by a strong reduction in the government market, as the portfolio's delivery calendar is concentrated in the second half of the year. There also is a strong basis of comparison with the opening months of the previous year.

In the page seven, we can see on markets campaigns. We launched a new advertising campaign to increase the visibility of the brands and the products. Urban art was chosen as the theme of the campaign for Positivo Duo. This is a two-in-one, detachable touch screen device that serves both as notebook and as a tablet. At the same time, we have TV ad being run presenting the Positivo Octa is a smartphone with eight core processors. The campaign's highlight is the participation of MC Guime, who is a celebrity here in Brazil and he praises the smartphone's fair price and the speed of its eight core processors.

FINAL

Bloomberg Transcript

FINAL

Moving to the financial results in the page nine. Here we can see the reduction in the net revenue it was 25%. It's worth noting that if we exclude the government from the analysis, the reduction would be only 13% it is better than the reduction in the Brazilian market in the same period. This happened because of the pass-through to prices you can see in the right side of the page that desktop and notebooks posted double digit price growth when compared to the first quarter. This increase in the prices were both because of better configurations, we sold more Core i Intel processors and also we have around 10% of pass-through to prices.

The only device that is decreasing price is mobile phones that happens because in the first quarter 2015, we sold a lot of feature phones and those devices are very simple and it's around BRL100 each one that's why there is a price came from 250 to BRL180.

Moving to page 10, you can see that the gross margin was only 21% in the period. It's almost flat year-on-year, but it's worse than the first quarter 2014. That happened because of the increase in the cost of the components in the local currency because of the American dollar appreciation around the world [ph].

So we have also some impact in the other costs, you can see that other costs reached 4% in terms of net revenue. This is because of the low dilution of the fixed cost caused by the drop of the revenue.

The selling expenses reached 17% in the period. Most of the increase came from marketing expenses. We had to spend more on marketing campaigns; (inaudible) promotions in the period because of the economic slowdown. Also we have an increase in the orders line, which was caused by R&D expenditures in the period were much higher than the previous quarter.

G&A expenses reached BRL29 million. It is 8% less year-on-year. We made an adjustment in the (inaudible) reduce fixed costs. It is expected to keep the same pace. I mean in the second quarter, third quarter and the fourth quarter it should be around 8 to 10% below what we saw in 2014.

Page 11, we can see the operating results. Adjusted EBITDA fell to 2% in terms of net revenue and that happened because of the local currency depreciation. We were protected against this movement, that's why the financial result was so positive. In the first part [ph] in the figure, you can see that BRL22 million for which BRL33 million represents the gain from the hedging instruments. That's why the net income despite the reduction in EBITDA is growing up to BRL11 million with net margin of 2.5%.

Moving forward to page 12, we can take a look in the cash flow. We reduced the net debt to BRL270 million most of the decrease came from working capital. Working capital in the first quarter is very common to see it decreasing because of the -- is the period that we receive the sales from the Christmas. Most of the sales to the retail segment is paid in 60 days. So between February to March, we receive -- we collect all the receivables for the Christmas.

FINAL

Moving forward, we can see the same movements in the net debt. It was around 500 million a year ago and then we decreased it to 300 million and now in March 31, we reached 270 million. This represents 70% in the long-term; 30% in the short term. It's a reduction because of the pre-payment of the debenture issue that we performed in the month of February.

Working capital represented 26% of net revenue. It was a cash conversion cycle of 121 days. It's an improvement of one day when compared to the first quarter 2014. And working capital was improved mainly -- most because of the trade accounts payable. You can see that the payment term almost doubled from what we saw in the middle of the 2014.

We can -- and now I'm open to questions-and-answers section. Thank you.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) I'm showing no questions. I'll turn the call back over to Positivo Informatica for final considerations.

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

Well, in the final consideration, I would like to mention that we closed the first quarter with a solid financial position and lower fixed costs. We built a substantial cash position of BRL300 million, it is even greater of our net debt. We are following a very strong discipline in FX risk management providing appropriate protection against the depreciation of the local currency. We made some adjustments in the fixed costs in line with the market scenario. So we are prepared to face the crisis that is going on here in Brazil for a good period of time. We are more prepared than we ever was.

We expect the smartphone sales to grow again, as a result of the marketing campaign. And also in the beginning of the second half of the year, we expect a resumption of government projects in Brazil and startup of operations in Ruanda. We have relevant volumes to deliver as of July and these projects are good projects, complex projects and should make some pressure on working capital, but in the end of the year, it should be flat in terms of net debt that is our expectation.

So I thank you and see you in the next conference call.

### Operator

Thank you. This concludes today's Positivo Informatica's earnings conference call. You may disconnect your lines at this time.

Bloomberg Transcript

FINAL

*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.*

Bloomberg Transcript