

## Q1 2016 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 First Quarter 2016 Earnings Conference Call. Today we have with us Lincon Ferraz, Investor Relation Officer. We would like to inform you that you will be in 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 have 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 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'll turn the call over to Mr. Lincon Ferraz, Positivo Informatica's Investor Relation Officer. Mr. Lincon, you may begin the conference.

#### **Lincon Lopes Ferraz** {BIO 18660463 <GO>}

Thank you. Good morning, everyone. We are here to present the results for the first quarter 2016. In the quarter, the company recorded mobile phone net revenue growth of 151%, which was the main highlight of the quarter. We had a strong growth in the sales with a volume of around 500,000 devices, it already represents 20% of our consolidated net revenue

There is another highlight, because of the international operations under Positivo BGH brand, it was boosted by deliveries of new educational projects in Africa and Argentina.. Sales under Positivo BGH brands grew 266%. We experienced a continuous capture of

FINAL

manufacturing and post-sales efficiency. In Brazil, margins normalized, as I'm going to show the only (inaudible). G&A expenses reduced by 30% even in an environment of high inflation in Brazil. We had a 4% growth in the adjusted EBITDA to BRL30 million, and also adjusted net income of BRL16 million reversing the adjusted results negative recorded in the last year.

We had a good evolution of excess inventory and also BRL22 million of tax assets monetized in the period, reflecting the relocation of production to Manaus. We closed the quarter with a net debt of BRL245 million, which is the lowest quarterly close since the second quarter 2013. It lowered our net debt over EBITDA to 2.7 times.

Moving to page 4, I will give you some color on the economic scenario. The demand in Brazil, it is still weak. People are not purchasing computers and white goods and so on, because of the reduced consumer confidence in the country, the ICC from the (inaudible) recorded in the period the lowest level since September 2005. So it is very, very low level. The government and also the companies are postponing purchases, waiting for an outcome of the political and also the economic crisis. And the comparison basis is very strong in this quarter, because in the first quarter 2015, the effects of the crisis was not so strong, it became strong as of April 2015.

So we had a reduction of 47% in the market in Brazil, the first quarter 2016 year-on-year. But there is an important sector mitigating these impacts, which is the profitability of the industry is now in normal levels. The manufacturers in Brazil could better dimension their supply to this changing market and this is mitigating the impact of this reduction in the market size.

The company is also doing some actions with regard to diversification of revenue. The first and more important one is the mobile phone segment, which grew triple-digit in the quarter, reaching BRL75 million, it is 20% of our consolidated net revenue, coming (technical difficulty) 7%, for instance. And in the international operations, Positivo BGH brand with a lot, we have about 140 million computers delivered under this brand, over 90,000 computers delivered to the Ministry of Education in Argentina and 37,000 delivered to the Ministry of Education in Rwanda, Africa.

And the last one is the premium brands, we have Quantum and VAIO. These two brands are focused in the higher income groups in Brazil. This market is less affected by the situation of the economic scenario.

Moving to page 5, we can see the -- some plan of actions that we have in the company right now. So as we planned, the actions to reverse results and cash are starting to pay off. You can see in the left side, the contribution margin, the sales margins of the company in the first quarter 2016 is in the same which was last year. So it's a good recovery, we're not selling off exceeding inventory anymore. And also we had a big reduction in G&A expenses, it went down 17% to BRL24 million. This reduction of 17% would be something very close to 25% if you consider the high inflation that we experienced last year here in Brazil.

FINAL

In the right side of the page, we have the company actions to cash. The main project is the Manaus project we moved the production of PCs and tablets to Manaus in November 2015. We -- the main goal was to monetize the recoverable taxes that we have in our balance sheet over BRL300 million. So in 2015, we are -- 2016, sorry, we are expecting to monetize BRL80 million. And what happened in the first quarter was that we monetized BRL22 million, it's 27% of the -- of our expectation. So, probably, we are going to surpass this BRL80 million out the year.

The second measure is to reduce the excess inventory. So we are chasing a lot less, using different logistics for computers and also for mobile phones, where we closed the quarter with BRL83 million in exceeding inventory, is almost half that we had in one year ago.

Moving to page 6, we can see what we are doing in the mobile phone segment, we can see a big increase, a fast increases in market share (technical difficulty) reaching 4% in the first quarter. In the second quarter, it should be even higher. We expect to sell much more mobile phones in the second quarter.

So right now, we are among the five top selling brands in Brazil. And we expect, as I mentioned, to keep triple-digit growth in the coming quarters. This market mobile phones is much larger than the PC market in Brazil. It's around \$10 billion market that we are addressing right now, if you compare to PCs, it's \$3.9 billion. So we have a very good portfolio, we have Positivo Selfie is selling a lot. It's 4,5 [ph] inches screen, 1 gigabyte RAM, dual SIM, only 599 in the retail and also we have the top brand Quantum with 2 gigabyte RAM, 32 gigas of memory, internal memory, below BRL1,000. So very good (inaudible) since the entry level to the intermediate level, we are selling a lot.

Moving to page 7. Some perspectives for the year. The first one I would like to highlight is the government portfolio. We have a very strong project portfolio, we have over BRL500 million in this portfolio. But in the first quarter, we only recognized BRL80 million, so sales with Brazilian Government will have a resumption of deliveries as of April 2016.

The second thing is the international operations, we are right now discussing a new project in Africa, in Kenya, with the Ministry of Education of Kenya. So we expect to increase this international operation.

The profitability in the PC market in Brazil is well protected right now, because we are focusing to minimize the exceeding inventory. The first item is the organizational restructuring that we had in April 2016. We downsized the leadership team by 20% in April 2016. The monetization of tax assets, as I mentioned, we also -- right now we relocated the production of mobile phones to Manaus, around 60% [ph] of the production will be in Manaus as of May 2016. So we expect to boost cash generation of this plan of action. And exceeding inventory, keeping (technical difficulty) will help us in the profitability, because you won't need to sell off inventories.

So moving to page 9, we can have some color on the sales. So the main highlight is the mobile phone sales. We grew 63% in the feature phones and 150% in this smartphones,

FINAL

it's a very strong growth, we have a good sellout in the point of sales. So it is driving a very strong demand for the second and third quarters, because of that.

The tablet sales went down a lot in Brazil, because the company decided to reduce the sale of tablets, because this is a very low margin segment in Brazil. There is an important portion of the market is a great market. So we decided to reduce a lot our exposure to this segment. In the PC sales, you can see that retail sales went down 30% following the trend of the market and the government sales went up 93%. This is due to the deliveries from Positivo BGH brand in Argentina and also in Rwanda. So you can see by brand, there is a strong growth in Positivo BGH and a reduction in Positivo in Brazil, 37% following the trend of the market.

Page 10, we recorded BRL376 million in net revenue, it's a reduction of 16%. What I would like to highlight the growth that we had in the retail segment boosted by mobile phones. Mobile phones already represent 35% of the retail revenue. The government revenue went down 36%. The reason is the international operations that I mentioned that is moving up very strong. We have -- is in joint venture, we don't control the company, we have only 50% stake in this joint venture.

So we don't -- we cannot consolidate these numbers as our revenue. So what you are seeing in this chart is the Brazilian government revenue. So the first quarter was very slow, but it's going to Brazil as of April. You can see in the right side the average price is moving up, around 16% [ph]. This is only because we are not selling off inventories, the market is recovering the margin, so it's our phenomena in the company and also in this segment in the country.

Moving to page 11, you can see the impact of the recovery of the prices in the COGS. COGS went down 500 [ph] percentage points just because the prices went up, so we could pass [ph] the price or costs. Selling expenses went down 15.9%. I would like to highlight the efficiency gains that we are having in the after-sales, so which reached 4.4%, the very low level. And the G&A expenses, we reduced by 17% year-on-year. If you look all the personnel expenses, we could reduce 20%, even though we had a very high collected by agreements of 8% in the country right now.

So moving to page 12. We can see the operating results. Adjusted EBITDA reached BRL30 million, EBITDA margin of 7.9%, it's going up again. There is no extraordinary expenses being adjusted in this EBITDA here. It's just the (technical difficulty) of the international operations that we add to the Brazilian EBITDA. The financial results came to 38 million. It's a negative 38 million, but the most important thing is that we had a lot of mark-to-market and other non-cash items in the period related to the hedging policy.

So it's non-cash, is related to the government portfolio that we are going to deliver as of April. So this last year, in the exchange variation non-cash loss, we expect to recover that, because we are going to face a lower cost when we recognize the revenue of these projects. The net income came -- adjusted net income, we adjust the net income with the non-cash items of the financial results, would be positive BRL15 [ph] million, reversing the same adjusted with the same adjustment one year ago, which was 10 million negative.

We closed the quarter with equilibrated [ph] net debt-EBITDA multiple, which went to 2.7 times. So it's an improvement over the balance sheet that we disclosed in December.

Moving to the last page, we can see the working capital. We have a cash conversion cycle of 99 days, it's an improvement of 22 days when compared to the same period last year. Net debt came to BRL245 million, is the lowest quarterly close since the second quarter 2013. And it's important to mention that we closed the quarter with a very high cash position of BRL491 million, this is a very conservative financial policy. And we are going to keep that as long as the uncertainties in the country, the crisis (technical difficulty) go on.

So I'm going to close and open for Q&A session. Thank you.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions (Operator Instructions) At this time, I'm showing no questions, so I'd like to close the Q&A session, as well as the conference. Thank you for attending today's presentation. You may disconnect your lines at this time.

*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.*