

Q3 2013 Earnings Call

Company Participants

- Lincon Lopes Ferraz, Investor Relations Officer

Other Participants

- Bruno Andreazza, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Positivo Informatica's Third Quarter 2013 Earnings Conference Call. Today with us we have Helio Bruck Rotenberg, Chief Executive Officer and Lincon Lopes Ferraz, Investor Relations 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 be accessed through the company's website 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 Lopes Ferraz, 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 2013, where we recorded adjusted EBITDA of R\$25 million, 5% up in relation to the third quarter 2012.

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Moving to the page five, you can see that in the third quarter, the Brazilian's markets recorded volumes in line with the second quarter despite the pricing (inaudible) caused by the exchange rates, which affected certain volume in the retail and corporate segments, especially in July and August. Minimal package tried to press the new cost on to the horizon because their margins were already being affected by the raising costs of some components such as memory card. The sales channels, particularly retail chains, tried to postpone purchases of upgraded product and began consolidating their inventories gaining time for discussions with its suppliers. In the third quarter, we expect cost on supplies to protect our margins. As a result, average PC price rose by 12% quarter-on-quarter. Part of the price increase was caused by the improvement in the credit mix with better configurations given that demand for entry-level products is more price elastic. The prices included initially (inaudible) given that manufacturers did not cut cost of the prices at the same time. Company's market share is expected to decline quarter-on-quarter, but remains in line year-on-year, also due to the lower volume of deliveries of PC to the Brazilian government, which totals 9000 units, a 6% reduction.

For the fourth quarter, the company expects a strong resumption of PC sales in Brazil due to government plans, thanks to the orders already invited and in production. In the public market, sales are expected to include the new line of products (inaudible) We also received higher orders for mobile phones.

Moving to page six, sales of PCs and tablets totaled 686,000 units in the third quarter, 7% up year-on-year. In Brazil, performance was fueled by tablet sales, which totals 96,000 [ph] units in record quarter market sale about 675,000 [ph] units, offsetting the lower retail volume.

Sales in Argentina and Brazil were 131,000 units, with a high volume of decrease in the laptop delivered to government clients. Sales to the retail segment came to 390,000 units, 1% down year-on-year. The reduction was based on the company practices as of the beginning of the quarter with (inaudible) depreciation of US dollar. Sales to the government clients totaled 270,000 [ph] units, 18% [ph] up year-on-year, considering the expected strong volume of delivery in this market in the first quarter, basically this is owned by the company. We reviewed the 2013 volume guidance to 400,000 [ph] in Brazil and 375,000 units in Argentina versus the previous units of 306,000 [ph] in Brazil and 260,000 [ph] in Argentina.

Sales to the corporate market maintains the strong trend, reaching a quarterly record. The company has been posting strong volume in this market due to direct sales to large companies and also to resellers which already have more than 6,000 partners from all over the country.

Page seven, you can see the new products the company launched and its 2014 product launches in September, which includes notebooks, desktops, tablets and smartphones with affordable price in the most desired feature by Brazilian consumers such as TV and touch screen. We have new smartphones with dual SIM card with an ultra slim version for each group and also a five-inch screen. With regards to tablets, we have a version for children with rubber pen and cover, facilitating the consultation and offering protection against fall, scratches and liquids.

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Beginning with the financial results on page nine, you can see that in the first portion, we recorded a net revenue of (inaudible) 9% up year-on-year, thanks to the higher average prices. Positivo were up from 9% to 15% depending on the transactions as you can see in the right. In addition, to the positives of the euro/dollar surprises, we saw higher average configuration and higher share of consumer brand to the detriment of secondary brands.

Page 10, COGS represented 80% of net revenue in the third quarter, leading to a gross margin of 20%, 1 percentage point reduction quarter-on-quarter. Here we can see the impact from the price increase of memory card and also the higher average increase input dollar which increased 12% quarter-on-quarter. Therefore, the pass-through prices didn't cover 100% of the cost increase affecting our gross margin. Selling expenses represented 60% of net revenue, marketing expenses accounted for 5% of new volume due to the higher share of corporate and government sales and the adjustments of commercial conditions we made at the appreciation of the US dollar.

G&A expenses totaled R\$22 million in the third quarter in line with the same period last year. The most important contributing factor was personnel expenses, reflecting the effects of new projects to capture efficiency, as well as the revision of provisions related to bonuses. Excluding the recognition of mandatory R&D expenses and extraordinary items booked in recent quarters, general expenses came to 19 million, down by 2% year-on-year.

Page 11, we recorded an adjusted EBITDA of 25 million in the third quarter, 5% up year-on-year. The adjusted EBITDA margins stood at 4.5% in line with the second quarter, just slightly below the third quarter 2012, due to the exchange variation impact on costs partially offset by the pass-through to prices. In terms of the bottom line, we recorded a net loss of 19 million, partly [ph] impacted by the recognition of exchange variation losses during the quarter. The financial result was an expense of R\$27 million due to the (Technical Difficulty) with the exchange variations totaled 17 million [ph]. It's important to bear in mind that due to expected volatility of the exchange rate in the fourth [ph] quarter, this triggered the company's risk policy more intensively. In addition retail and government clients placed major orders in the third quarter to be delivered in the coming months. These factored together increased the hedging volume, affecting exchange variation expenses in the quarter.

Moving forward, you can take a look at the cash flow on slide 12, operating cash flow was negative by 51 million in the quarter, 62% down year-on-year. In comparison with the second quarter, the company recorded a higher consumption of cash in line with the seasonality of the period.

Page 13, you can see that the main production to the cash (inaudible) totaled R\$600 million on September 30, 70 million up (inaudible) in terms of costs, it represented a 107 days, border line accounts receivable and supplies maintained at the big levels (inaudible) this quarter having the company to keep operating cash flow at 25% of the annualized net revenue.

Net debt totaled R\$283 million in the end of the third quarter, which is close to the amount we received a year ago, but we now have a better profile for the debt with the BNDES line accounted for 56% of net debt.

Page 14, we can see that year-to-date investment totaled R\$22 million, which is less than half of the (inaudible) we saw a year ago. We are working really hard to reduce investment with the introduction of the Investment Committee and the results are quite good. We expect to finish 2013 with a reduction of over 40% and keep the current volumes to the coming year.

I would like to thank you and we are now available for the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions). Our first question is Bruno Andreazza, BTG Pactual. Please go ahead.

Q - Bruno Andreazza {BIO 18720092 <GO>}

Hi, guys. So just a quick question about the government orders. First you guys have raised your guidance for PCs in Brazil and Argentina. But I was wondering if you could comment a little bit on the outlook for tablets in the fourth quarter. And also, still on government, are you guys able to comment on the outlook for next year, both on PCs and tablets, but I guess it's supposed to be still pretty strong in the first half of the year, at least, right? Those are my questions. Thanks.

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

Okay, Bruno. This is Lincoln speaking. Yes, we increased our forecast for 2013 from 360,000 [ph] in Brazil to 500,000 [ph] Brazil. This volume (inaudible) too big in the third quarter that we increased volume in the year 2013. In regard to the tablet, we cannot expect an increase of volume in the government segment in 2013, most of the volume was delivering in the first half of the year.

So, we are optimistic about tablet sales in the last quarter, but in the retail segment, because of the introduction of the entry-level segment that we are talking right now. For 2014, we have good volume in the government segment, because that are happening right now a lot of deals. So you can expect a little bit high volumes in the first half of the year. In the second half of the year, volume will decrease because of the election, okay.

Q - Bruno Andreazza {BIO 18720092 <GO>}

Okay, that's great. Thanks a lot.

Operator

At this time, I'll turn over to Positivo Informatica for final considerations.

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

Well, to head back to the final consideration, I want to say that the company expects a strong redemption of revenue average in the fourth quarter. You can see a normalization of the selling to the (inaudible) after the initial impact to the pass-through supplies. We have maintained a schedule of delivering some government projects with addition of delivering, as I am speaking with you right now, we are expecting at least 100,000 PCs in Brazil and at least 35,000 units in Argentina all in the fourth quarter. We expect to increase our market share in Brazil over the third quarter and also increase sales of tablets and mobile phones in the retail market.

There is a high end of year seasonality in the distribution end and also in the application technology. To finish, I want to say that we have very low product exchange exposure at the end of the year, thanks to the increasing hedging volume, which is now over \$200 million. So, I want to thank you very much. I will see you on the next quarter. 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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