

## Q3 2020 Earnings Call

### Company Participants

- Caio Goncalves Moraes, Chief Financial Officer, Vice President of Finance and IR
- Helio Bruck Rotenberg, Chief Executive Officer, Member of Board of Executive Officers & Director

### Presentation

#### Helio Bruck Rotenberg {BIO 15342060 <GO>}

Good morning, everyone. We are bringing very encouraging results and we are very happy with the moment we are going through our company. In addition to a pungent computer market and I'm going to talk a bit more about that, we are going through a strategic definition process in the company. It's been 8 weeks that we have been working with McKinsey to make strategic definitions for the next five years. We are very happy with the results and very confident about the journey that we started three years ago and that we are going to enhance for the next five years and that are already starting to give the first results.

So I would like to tell you a bit what the third quarter was like and what is going on in the market. So let's go on to the next slide. So a good performance in sales with 22.2% plus in computers, very much concentrated on retail operations. That's important to say. Corporate sales and most specifically, government sales in which we are stronger, we are going to see a recovery in the fourth quarter and not the third quarter. That is what the pandemic did, it kind of pushed it forward.

On the other hand, the pandemic made the retail market thus boost. Home-office made computers become no longer one computer per family and going back to being personal computers, through PCs as they had been envisioned in the past.

So each family member tried to have one computer. Then there's children with their classes, parents were working at home. So the number of computer per home increased. In the beginning of the pandemic major corporations bought the computers in retail as well. No one was ready. China was closed, people have to live in country. Taiwan was closed, Korea closed. Producer centers all over the world closed. So there was no raw material. And retail is where everybody sought for supply.

And in the third quarter, we see this huge (boost for) tablets as well with significant increase. We were weak in tablets. The market grew a lot. We grew a lot. Again, people would look inside their home. But not a fantastic number. One of our largest online retailers have a two-day promotion. You know who they are, and they sold 46,000 in tablets of our CPU (Inaudible). It's something that was unprecedented. And computers, if we have more notebooks in the market, we would have sold them. Just remember, at the

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beginning of the pandemic, everybody retracted. So did we. We didn't know what was going to happen. Where is cash, everybody had the first reaction. So we postponed, postponed things. And then whatever we had in the third quarter, we sold at the right exchange rate.

So margins that were very much compressed because the dollar rate was up. In the third quarter, it went back to normal with the normal market prices being impacted. And obviously, because there was a gap of products, in a way, it enabled us to have sales at correct prices. Therefore, we record of gross revenue BRL600 million. Net income grew a lot with normalized margins and other businesses already yielding results. EBITDA went up. In a very healthy manner, we got to BRL50 million net income, BRL69 million adjusted EBITDA.

Some news that happened in the quarter that are worth mentioning. Well, first, the electronic ballots that was a few weeks ago. So supply will start as of next year. I believe the Supreme Electro Court is going to keep the agreement as is. So the project is going very well, quite consistently. And deliveries are going to start most probably the second quarter next year, maybe third quarter, but most probably second quarter. We are launching the cell phone mobile that is our premium profit with a positive brand. The same retailer that has the 2-day promotions sold 6,000 units of our mobile.

So the computer category was not affected. Top of Mind, we call it Sao Paulo newspaper, this time, we're ranked third, very close to the runner-up showing that we have a strong brand. Although Positive brand is stronger, not -- you know in the whole social pyramid, it's more towards AB, but we still ranked third, which made us very encouraged with the strength of our brand. And for the first time, we have the great place to work seal, which is very important to attract talents.

So these are I think the most important news of the quarter, our highlights, I talked about the McKinsey Consulting that is helping us establish our strategy. It's a lot of work, but gives us confidence for the future. As it's really boosted, computer rental market is picking up in the third quarter as well, giving us good margins. So we have intelligent Casa growing up, computers growing up, smartphones growing up with new launches. So most of the categories did very well. And all that converts to the excellent results of this quarter.

Moving on, just to tell you, since the beginning, we paid very close attention to our people. In addition to being part of the ventilators project, we had special care with our people. We're continuing home office. I'm still working from home. Almost the whole of our admin personnel are working from home with a few exceptions. Curitiba is still a problem. But the plans because of all the measures we adopted enabled us to continue working nonstop, which was very good. And the seal Great Place to work that I already mentioned.

Next, again top-of-mind I already mentioned, we ranked third with a 10% top-of-mind that made us very happy. And the launches as I mentioned, I already advanced the news in the presentation. I talked about Q 2020, 128 gigabytes three cameras. It was sold at BRL899.99, that is the right price. And with the increase in the exchange rates lots of

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people even left the BRL1,000 range. And this is really picking up in the market. And the Inteligente Casa light bulbs, as we mentioned. People are more at home. They are paying attention to their homes. And they want to go into this remote control, the one that you use from your smartphone. So our product very well sold. This is a category that we believe should be called information, and that will bring us lots of good news in the future.

Moving on, let's talk a bit about our sector as a whole. So the PC market is really picking up with computer no longer being one by home but a true personal computer. We don't know if this is a trend to stay. This is something that time will tell. But everybody finalizes for a market that is not going to be the same. We don't know exactly what it's going to be like. But anyway, 1.6 million units in the third quarter '20. That's 10% compared to the third quarter '19. And you see clearly with the growth in retail public institutions going down, corporate going down. But we believe that for the fourth quarter, these two categories are going to show very good results.

Our share is slightly lower, again, because we are very much present in government sector. We expected more deliveries that are happening in the fourth quarter. And we continue very strong at the cheaper computer range where we have a very, very, very strong brand and we continue to lead the share of voice that we measure constantly and has been very strong in recent times. So we are doing very well with a significant share in all segments both with the positivo and the brands.

In the smart phone market, we grew a lot. We are going up with this new category. Even as entry level categories, more people cannot afford a plus thousand cell phone and they will buy entry level. They'll buy ours. Feature phones are very well sold in face-to-face brick-and-mortar stores. So people are going back socioeconomic classes more to the lower end. In Brazil, we call them D&E, but they're picking up.

As for market share, of course, altogether, we are losing because of our corporate and government clients, but we are doing very well in retail with a very solid position, both in the entry and almost mid-level, which is BRL899.99.

Well this is what I had to tell you with regard to the market. And now I'm going to turn over to our next speaker. Whatever questions you have, let's have at the end of the conference call. So now with you, I'll turn to Caio Moraes, our new CFO that will give us the financial highlights.

### **Caio Goncalves Moraes** {BIO 18682110 <GO>}

Thank you, Helio. Well, Helio talked a lot about a lot of things.

So let's go to the next slide. Let's talk about the growth of our gross revenue. Here, we clearly see an increase compared to the previous quarter. Netebooks with an increase although there was a drop in sales in Servers. As for the mix of our sales channels, retail really were picking up in this quarter. As for government institution and corporate, a bit of a drop, that is they are recovering at a bit slower pace and we should see good performance as of the fourth quarter.

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If we go to the next slide, talking about operational expenses and financial results. You see sale expenses totaling BRL81 million, 15.5% of the net revenues and only 4.2 percentage points. Again, retail in a way, generates more marketing expenses. And freight costs because of the pandemic are more expensive. But still we had an increase in sales expenses, but a decrease in G&A.

As you can see, we had BRL22 million, again, 4.2% of net revenue. So it is almost a 1 percentage point drop. This is a result of a strong control of our fixed costs that are being conducted as part of our actions in the pandemic. Financial results. We went from a minus BRL10 million to a positive BRL7.5 million, and that's a combination of a decrease in our financial expenses, basically because of the drop of SELIC, the interest rate in Brazil and also a gain of BRL22 million in the exchange variations. Again, because of our hedging the inputs bought by the company and vis-a-vis the strong increase of the dollar rate in the period.

Next slide, here, we talk a bit about our net income and on adjusted EBITDA. As, Helio also mentioned in the highlights, we had very strong net income of BRL50 million in the quarter with net revenues percentage of 9.6%. And adjusted EBITDA considering the hedging of our raw material of BRL69 million, with percentage of net revenue of 13.2%, a 5 percentage increase compared to the previous year.

Now talking purely about financials that is cash position and our indebtedness. Here, we have very positive highlights. A very substantial cash generation, which led us to a comfortable position of BRL546 million, which translated in a lower net debt and also a lower indebtedness region, going to 1.3x compared to last year at 1.8x.

Other highlight is our liability management that we started in the company, that is basically elongating our debt profile without increasing funding costs. So we are even decreasing funding costs, but using more elongated accountability management. It is improving our debt. So you see in the third quarter, short-term is no longer 84.5%, but rather 75.8%. We still have a long way to go, but this is ongoing work that is giving us very good results.

Okay. Now we are going to open for your questions.

## Questions And Answers

### Operator

(Question And Answer)

**A - Helio Bruck Rotenberg** {BIO 15342060 <GO>}

Who is going to control the questions?

### Operator

I will. The questions here. We have first is from Marco Nandini from XP, and Eric Wong from . It's the same question. They're talking -- asking us to comment on margin trends for the next quarters. Helio, would you like to answer?

**A - Helio Bruck Rotenberg** {BIO 15342060 <GO>}

Could you repeat the question? I'm sorry.

**Operator**

Well, what is the trend of your margins for the next quarters, more specifically the fourth quarter?

**A - Helio Bruck Rotenberg** {BIO 15342060 <GO>}

Well, the margins that we had in computers are going to be kept as long as we have the strong demand for computers. This is an advantage for suppliers, because we have always the law of supply and demand. So we think that in the short term they are to be maintained. That is for a few more quarters.

And of course, there is a mix that is going to be variable. You'll have the government sector picking up in the fourth quarter, a few other things. But that's as things are. And then we have the balance for next year. So we believe margins are to be kept at this level, may be slightly lower, but for the following quarters.

**Operator**

Thank you. Second question also from Eric. Could you talk about the volumes expected from the agreement with the electro quarter for '21 and '22?

**A - Helio Bruck Rotenberg** {BIO 15342060 <GO>}

We believe we are going to be able to meet the full agreement. And the whole agreement probably for a mix that's still not that firm, but probably 60% to be delivered by 2021 and 40% by 2022.

**Operator**

Okay. One more question Helio, from Freddie from Bradesco BBl. Could you talk a bit more about your performance on notebooks? Do you think the movement is more to increase the number of computers per members of the family? Or is it more a matter of renewal?

**A - Helio Bruck Rotenberg** {BIO 15342060 <GO>}

Well, it's a Mix. The survey show that lots of people tried to pick up their computers, that were no longer being used, and they were not able to use them. So it's not the computers that were being used. They were renewed as well. But, the biggest boom was

just more computers per household because of homeshooling, because of home office, everybody, at home, everybody working at the same time.

## Operator

Okay. Great. As far as smart phones, that had a huge recovery compared to the second quarter, do you believe that this is a segment that is going to grow in the future?

## A - Helio Bruck Rotenberg {BIO 15342060 <GO>}

We are growing, the segment not as much. Society is more or less already furnished with smart phones. It's about 50 million units a year in Brazil. So it's more of a renewal segment than new smartphones. And renewal happens when there is a problem or when they somehow get too old. But at the entry level 699 and 599, that is where we have a very robust portfolio. We do see an increase in the actual number.

## Operator

Okay. We have no more questions. Let's see if we have any more questions. Let's collect the questions before we can talk to you.

## A - Helio Bruck Rotenberg {BIO 15342060 <GO>}

Okay. So we're closing. I would like to thank you all for attending this call. This is a quite important time for our company. We believe we are on the right path for recovering growth, recovering margin. Of course, the computer segment helped us for the recovery, but other segments are also picking up, which is very important to us.

So thank you very much. And remember that we are always here to answer your questions, even after we close this conference call. Thank you very much.

Yes. This is just what I wanted to say. Remember, any questions, we are here for you, and we wish you a very good day.

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