

## Q1 2017 Earnings Call

### Company Participants

- Lincon Ferraz, Investor Relations Officer

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Positivo Tecnologia's First Quarter 2017 Earnings Conference Call. Today we have with us Lincon 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 Tecnologia'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 [ir.positivotecnologia.com.br](http://ir.positivotecnologia.com.br) at Engage-X platform. 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 Tecnologia'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 Tecnologia 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 Ferraz, Positivo Tecnologia's Investor Relations Officer. Mr. Lincon, you may begin your conference.

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

Thank you. Good afternoon, everyone. We are here to present the results of the first quarter of 2017. Positivo Tecnologia recorded a net revenue of the BRL450 million. This represents an increase of 21% year-on-year. We had continuous progress in the diversification of the business with mobile phones reaching 33% of consolidated net revenue. We managed to grow 98% year-on-year in terms of net revenue and our market share increased from 3% to 4.6% in one year.

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In this period, we have the digital TV project delivery here in Brazil. We began delivering the converters in February with the gross revenue of 73 million.

And also, we recently had the project expansion with an additional batch in the amount of 41 million, totaling 380 million, which has normal volume contracted. As I'm going to present you later, we have further reduction in recurring G&A expenses, which dropped by 17% despite the high inflation. Also, our adjusted EBITDA reached 34 million, 16% up year-on-year, with a margin of 7.6%. Also, we had a good evolution of cash generation projects with the reduction in excess inventory and also in the monetization of tax credits totaling BRL21 million.

Our net debt reached 239 million, it's the lowest close for a first quarter in five years. And our multiple net debt over adjusted EBITDA closed at the period in a ratio of 1.6 times. We have the partnership with the athlete Neymar Junior for the promotion of the Quantum smartphones and also in the period, we changed the company's corporate name to Positivo Tecnologia, formerly our naming was Positivo Informatica. This is a broader concept, more up-to-date and aligned with the Company's current business diversification.

Moving to page four, here we can have some color on the macro scenario. For the computers in Brazil, the market grew by 13% in the first quarter. The comparison basis is very weak. The growth took place in the corporate and government segments which grew by 25%. This represents a recovery after a long period of contingent investment in this segment.

The IT Data consulting firm expects these two segments to maintain a double-digit growth rate for the remainder of the year. The Retail segment was flat year-on-year in Brazil. This segment is still suffering from the economic situation and the upcoming quarters should show some growth in the demand according to IT Data.

Mobile phone market grew by 30% in the first quarter 2017 when compared to the same period last year and the growth was concentrated in the smart phone segment. The products with intermediate and high configuration grew more than the basic smartphones because of the fragile conceptual momentum in the low income classes here in Brazil.

IT Data is expecting the mobile phone market to grow 4% in Brazil this year, 8% in smartphones and a reduction of 31% in feature phones.

On the right side of this page, you can see the Company actions. The main project is to growing mobile phones, we grew 98% in terms of net revenue. Mobile phones represented 33% of consolidated net revenue. The Quantum brand was the main reason for this growth. It also is now representing more than 50% of the revenue from mobile phones.

The Digital TV Project was -- I mean revenue BRL73 million and we have more BRL235 million to be recognized to the end of the year.

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Moving to page five, here we have some market share figures. For mobile phones, our market share closed the period at 4.6%, it increased when compared year-on-year but was flat quarter-on-quarter. If we open this number between smartphones and feature phones, you can see that smartphones is still growing and feature phones, we see a reduction. The Company is not focusing too much in the feature phone market.

Feature phone actually is only 1% of the global net revenue in the total market in Brazil. So the growth prospects are not so, so good. So we are focusing in the smartphone segment, which for sure has better dynamics in the future.

On page six, you can see one of the pictures that we are using for our marketing campaigns with Neymar Junior, he is the most famous Brazilian soccer player. The campaign has the quote "How Come Do You Don't Know Quantum?"

So we are using Neymar Junior to present the brand for those who still don't know Quantum smartphones and we can expect some feedback in the sales volumes in the next quarters.

Moving to page number seven, it is a very brief view on the main numbers of the financial numbers of the quarter. First thing, the profitability remained at good double-digit contribution margin, which is 11%, is 3 percentage points better when compared year-on-year.

And the reduction in comparison to the fourth quarter was the extraordinary gain that we had in the fourth quarter related to some products that we launched in the retail. Also we controlled -- a very tight control, G&A expenses dropped by 17% year-on-year. The recurring G&A expenses reaching BRL11 million in the quarter.

In the right side, you can see the main actions for our cash generation in recoverable tax, last year we monetized BRL88 million of recoverable taxes, with the change of factory from Curitiba to Manaus. And this quarter we monetized 21 million. Just for comparison, it's very similar to what we had in the first quarter 2016 and much better than the year before when we were BRL24 million in this account.

The excess inventory remained fine at 44 million, it's the lowest level in two years in the company, a reduction of 91 million when comparing to the year-end 2016.

The next page, page eight, we can see the main perspectives and highlights for the Company in 2017. Beginning with mobile phones, we expect a strong competition underway in Brazil. There is a (inaudible) right now mainly in the retail channel.

We are looking to strength our turnover of products in the sales channels. This will help a lot, the repositioning of the sales channel.

And Quantum is expected to be the main driver for the growth in this year. So that's why we launched Quantum MUV UP, and Quantum GO2 lines in the quarter.

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The second thing as I mentioned the Digital TV project, we constructed a new batch in the amount of BRL41 million. We expect to deliver this beginning in the second half and most of the revenue will be recognized in the second half. But a small portion is expected to be recognized in the first quarter 2018. With this new batch, our global contract increased to BRL380 million.

The third is, computers for retail. We have been selling with healthy margins and very well aligned it with our internal projections. So this helps to avoid the generation of excess inventory. This behavior is very nice for us and we expect this to be maintained for the upcoming months.

The fourth thing is the computers for government. The number of bids in Brazil is going in a good pace. The number of bids are high, better than the last year. Positivo has been performing well with winning rate similar to what we had in the recent years and revenue should be concentrated in the second half of the year because of the slowness of some government bodies to book the orders to us. So we expect some concentration of revenue in the end of the year.

In this second quarter, we expect to launch the medical equipment business, we got the registry from the regulator. And also just remember, this is a joint venture between Positivo and Hi Technologies. We have 50% of its capital. We acquired this start-up company in 2016 last year.

And finally, the change of the Company corporate name to Positivo Tecnologia. It was approved by 100% of the minority shareholders attending the General Shareholders' meeting that we held last month.

Moving to the financial results on page number 10. We can see that mobile phone sales went up by 86%. Most of the increase was due to Quantum brands. As I mentioned, we are not focused that much in feature phones. That's why, it reduced by 41%.

In terms of PCs, there is a reduction in the retail of 19%, but it took place in Argentina, the first quarter in Argentina in the retail was not that good. Government was almost flat. Thanks to the delivery of educational projects in Kenya. Our projects in Africa are doing very nice. And corporate segment, we grew by 42%, most in Brazil, we are selling big volumes of Vaio products to companies in Brazil and we are very confident with this segment for the year. Moving to page 11. Here we can see that our net revenue totaled BRL450 million, up 21% year-on-year. Most of the revenue took place in the retail, BRL245 million that's net revenue from retail, 60% was mobile phones, it's twice as big as we saw in the first quarter 2016.

And Corporate segment, we can see a big increase of 267% in terms of net revenue, but this was because of the Digital TV project. So if we disconsider this project in the corporate segment, the growth will be 90%, which is still very, very high pace of growth. Average prices for computers both desktops and notebooks remained flat when compared to the fourth quarter. There was a small reduction in the cost due to the

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reduction of the FX here in Brazil, but it was compensated by the increase in sales to corporate segment which has bigger price of sales.

Also tablets, almost double the price for the same reason. All the tablets that we sold in the first quarter went to companies to the corporate segment. This tablets are better configurations and bigger screens. And mobile phones, the price increase was 3%, boosted by the Quantum line which has better pricing than Positivo brand.

On page 12, we can see that the cost of goods sold reached 71% of the consolidated net revenue. This represents a gross margin of 29%, it's much better than we got one year ago because one year ago, if you remember, we were selling some excess inventory.

So we were providing discounts to the sales channel and this impacted a lot in the relationship between revenue and cost. When compared to the fourth quarter there is 3 percentage point increase mainly because of those extraordinary gains that I mentioned and also because of the Digital TV project that we delivered in this first quarter that has a lower margin when compared to the average of our portfolio.

G&A expenses went down by 17%, the recurring, also we got some non-recurring items and R&D obligations in Brazil that made the G&A expense to go up by 7% in line with inflation.

On page 13, we can see the results. We closed the quarter with EBITDA of 34 million, 60% increase year-on-year. Our multiple net debt to adjusted EBITDA closed at 1.6 times, which is much better when compared to the same period last year.

We got some losses in Argentina with regard to closure of production in the Southern region of Argentina. So we have two factories in Argentina. In the South, we decided to close. There was a change in the regulations in Argentina regarding the import tax for finished goods.

So we decided that only Buenos Aires plant would be profitable. And we are concentrating the production there. Also we are going to supply the market with finished goods with both Positivo BGH and Vaio brands. Excluding this effect, which was BRL5 million, net loss would be only 3 million, which is representing improvement of 70% year-on-year.

On page 14, we can see that our net debt increased by 19 million when compared to the fourth quarter. This increase of 19 million was due to the working capital requirements that were increased by 50% -- BRL50 million, I am sorry.

You can see the disclosure update in the left side of the page. This happens because our revenue increased 21%. The operation was big in the first quarter and we, in our transactions, we usually pay the supplier before we receive from the client.

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So to meet the demand of this revenue, we have working capital requirement increase of BRL50 million. Keeping out constant, the net debt would have increased 60 million. It is because of the cash flow from recoverable taxes that I mentioned 21 million. That helped to keep the net debt flat year-on-year. So if you compare to the first quarter 2016, it was 245 million and will be closing at 239 million.

Moving to page 15. Here we can see the share price performance, we closed the quarter with our share price of 3.50. We are outperforming the benchmark by far in this year. And the most important thing for us is the increase of the liquidity rate. So the number of daily trades and also the average daily volume is increasing very fast and this is important to us because allows more investors to buy our shares and helps a lot in the evaluation of the Company.

So, here I finished. Thank you very much. Let's open for Q&A section.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) And at this time, I would like to turn the conference back over to Positivo Tecnologia for final considerations.

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

Well, I thank you for your attendance [ph]. I see you next time in August with the second quarter results. Thank you so much, bye-bye.

### Operator

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

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