



SMILES CONFERENCE CALL – 3Q19

Operator: Good morning, ladies and gentlemen and thank you for waiting. Welcome to Smiles conference call to announce the results of quarter 3, 2019.

Following the company's presentation, we will start our question and answer session. If you would like to ask a question, please, press *1.

Should you need any assistance during the conference call, you can reach the operator by pressing *0.

Please be advised, that information giving during this conference call may contain forward looking statements or statements about future expectations. This information is subject to known and unknown risks, and uncertainties, that may cause them not to materialize or to be substantially different from what we expected.

Today, we have with us, **Mr. André Fehlauer (CEO)** and **Mr. Marcos Pinheiro (CFO)**. Now, I turn over to Mr. André Fehlauer. You may proceed, sir:

Mr. André: Good morning, everyone. Welcome to our conference call to announce the results of quarter 3, 2019. I would like to thank you all for your presence and participation.

On slide number 1 of our presentation, with the highlights for the quarter. The numbers that you see here. What they actually show is the engagement of our customer base.

We finished the quarter with more than 16 million customers, an increase of more than 11%, and this are very engaged costumers, as you see in these numbers. We had a little over 1.2 million airline tickets redeemed, 120.000 hotel stays and 120.000 thousand car rental bookings.

So, these shows engagement not just with our core business, which is airline tickets, but also following our strategy of the traveler's chain. This also shows engagement in the others fronts in which we work.

Still on this slide, we see our record net revenue of 279.3 million. Gross billings of 633.7 million in the quarter. And we still keep a very lean and agile, structure. To streamline decision making, with 136 employees.

On the next page, this is one of the reasons why we have been able to achieve such good results this quarter. Which are our promotional marketing efforts and the speed at which we launch our promotions. This quarter, to innovate our promotional work, first we launched the Orange Friday campaign. Which was sort of an early Black Friday. And it was a very successful campaign. It was the best second day of the year in sales. And the *Clube Smiles Day*, which is now more sophisticated and has a greater promotional capacity.

We reached record sales in the year in only one day. 450 million miles redeemed on one day, which show the fantastic engagement of our customers. So, this is truly remarkable. And is very satisfying to see such good results. Just to give you an idea, for, in one month, we had more than



60 promotions. So, it's truly a very good promotional marketing, CRM and pricing tool. This also strengthens the relationship with our partners, that helps us offer our services.

Moving on to the next slide. This had already been announced. The agreement with the Nubank. So, it was rolled out this quarter. And our sales team is working closely with the banks. And is now entering this new segment of fin techs, which is growing consistently. So, we are exclusive partner with Nubank today. And if a customer of Nubank Rewards, wants to transfer miles to Smiles, through their Smiles account, they can do it automatically and online. Which is a very interesting differential, very innovative, in this loyalty process.

On the next slide, you can see a little bit of our strategy to promote *Clube Smiles*. I already mentioned the *Clube Smiles Day*. We also had the anniversary of the club. And we launched 2 new plans. The 20.000 Plan. And the great differentiation here, is that it offers the diamond category. So, it facilitates for our customers to stay on the diamond category. Which is a category that has numerous benefits for frequent flyers. Particularly with our greatest partner, Gol. So, we had an exclusive launch ceremony for guests only, for the 25.000 Plan. This plan. The most engaged customers of the company were invited to this launch and we had a great acceptance of the 2 new plans.

So, we will continue to develop the strategy of *Clube Smiles*. And if you look at *Clube Smiles* customer's experience, they will always feel special. Either when they are booking tickets, or hotel stays, or renting cars. There will always be a differentiation. Either in terms of promotion, or redemption prices. So, this shows that we can truly offer benefits to our most engaged customers. In addition to our diamond category customers.

On the next slide. Yesterday, we announced the inclusion of new airline partners in our portfolio. We already had Gol plus 19 companies. Now we have 25 additional airlines. Mostly focused in regional destinations or exotic, exotic destinations. So, customers, starting today, they can fly, for example, inside China, Greece. Or within Europe, for example, inside Ireland, Bahamas, and other Asian companies. So, with this offer, which is dedicated to our exotic flyer, or exotic travelers. This is a very important addition. This shows our customers that we can offer them the opportunity to travel anywhere in the world. It's a huge world, there are many places to visit, and we can help you do that through our partners.

On the next slide. Here we talk about smiles by air, by land, and now by sea. Because now, we are also selling sea cruises. We used to have operations in the past, that sold sea cruises with miles. But now we have revisited this experience, in a partnership with Agaxtur sea cruises. And now you can buy your sea cruise, and you can acquire miles for your next trip. And this can all be done online. And I think this is something unprecedented in our market. You can have the entire experience online. You can choose your cabin, you can choose your ship, you can choose your destination. This is. It's all very simple and easy. We are selling almost 20 ships and approximately 50 ports in Brazil and worldwide. We want Smiles to be a complete solution to any traveler that wants to go anywhere in the world.

On the next chart, there is some information about our co-branded credit card. This is a partnership with Banco do Brasil, Bradesco e Santander. This was created about 1 year and a half ago. And we've been making efforts, with our financial partners to give visibility to this product. On left side of the chart, you see the increase in sales of the co-branded product year over year.



And another important point about this partnership is our capacity to sell credit cards. You see that a large part of what was sold, was sold through Smiles channels. So, when banks are seeking partnerships, that's what they want. They want to see what the size of the brand is, the reputation of the company and the capacity of the company to sell the product. So, this has been a very fruitful partnership in this sense, and we are looking for more partners. This product truly facilitates our customer's life. And this is about customer experience. With this credit card, they can buy whatever they need, they get the bill online. It's much easier to acquire miles and then to use our miles redemption services.

Slide number 10. I don't know if you've heard about Radar Smiles. You can see more information on our website. This is a real time monitoring tool. So, you can monitor the best airfares from our 20 partners online and real time. As I said, what we want is to make our customer's life easier. So, the idea here is to use the app to search for your favorite destinations, your approximate date. And we will help you monitor the prices, the air fare. You can set notifications. You can go straight to the partner's website to buy the ticket. So, this is a great tool, for people who want to plan their travels but don't have much time. This is how Smiles can help customer plan their trips.

Here is a step by step, showing the screenshots of the application and how it works. I'm not going into details. But I strongly recommend that you try out our services. I'm sure you are going to like it. And this product, together with Viagem Fácil, and bookings, give us a very important competitive edge. And the purchase airfares through our service at smiles.

On slide number 12, here we see the logic behind all these initiatives. The company truly believes that consumers should be in the center of everything that we do. Everything that we should be focuses on our customer. And they will have Smiles as their favorite to accrue miles. So, the traveler's journey is increasingly, an increasingly, important focus for us and the company. We talked about the Radar, we talked about the application and you can expect more solutions in the future to put the customer at the center when redeeming their miles, when buying air tickets. We want Smiles to be the easiest way to plan your trips.

So, this is the end of my part of the presentation. And now, Marcos Pinheiro is sharing some numbers with you and I will be available at the end for questions.

Mr. Marcos: Thank you, André. Good morning, everyone. On slide 11 we see the evolution of the company's gross billings. So, when we look at the sequence. Quarter against quarter. We see a slight decrease in our revenues of 7%. But when we look at the annual numbers, we see that the company is clearly expanding its business. Particularly focused on increasing customer engagement. And not the engagement of any customer, but the right customers. We want to be a loyalty program targeted at customers that truly value traveling experience.

On slide number 12, the numbers are somewhat similar. Here, we clearly show the evolution of our net revenue. The company's revenue was stable, and the evolution is very healthy when compared to same period last year. We had an increase of 6% in our net revenue.

Here we have some news for you. And we can discuss this further during our question and answer session. This slide shows what has happened with competitiveness in our industry. When we look at the dynamics of the airline industry, some factors end up affecting our lives. And everything



that happened recently with the exit of a very relevant player. The very positive evolution of occupation rates, and our partners. Of course, at some point we would feel the impact of all that.

Just to explain the size of this challenge. This chart shows the mix of air ticket redeemed with Gol. We see that. It was the first time, in the history of the company that we had to buy so many air tickets at market price. Of course, with some discount, due to volume purchasing. But in similar conditions when compared to any travel agent in this field.

And to tackle this challenge, we had to improve the internal capacity of the company. Our CRM and revenue teams virtually worked 24 hours per day, to try to establish a pricing level that can help us maintain our high profitability. But also, engage our customers. That's why we had to slightly decrease our margin. You see the redemption margin, which is the main profitability indicator of the company. We see a decrease of 3.2 percentage points compare to the previous quarter and now it is below the historical level of 40%.

On the next slide, we present the net income of the company. The quarter. It was 150 million reais, approximately, of net income. Which was slightly lower than previous periods But still very interesting, very healthy.

This is the last slide of the presentation. Now we can answer your question, if you have any.

Operator: Ladies and gentlemen, we are now starting our question and answers session. If you want to ask a question, please, press *1. to remove your question from the queue, press *2.

The first question is by Paula Atanassakis, Bradesco BBI.

Mrs. Paula: Good morning, thank you for answering my question. I have 2 questions. I'd like to know if you have updates regarding the extraordinary price adjustment of Gol air tickets. And do you have any updates regarding when you are going to have the updated business plan? And my second question is: will there be any impact with the exit of Delta and the new partnership with Latam? Could this affect your results in your international flight business?

Mr. Marcos: Good morning, Paula. This is Marcos. Thank you for your questions. Let me start with the updates. So, if I understood right, you asked about the company's business plan which is now being revised, and about the extraordinary readjustment that was requested by Gol a few months ago.

So, in respect to the 2 issues, we are working on them. These matters are being appreciated by our board. And we don't have any news to share with the market right now. Except for the objective fact that we are working on these 2 issues to solve everything as fast as possible.

And regarding your second question, about the impact of Delta. I don't think we are able to talk about any impacts on profitability right now. Objectively, the end of this partnership will impact, somewhat, our attractiveness to our customer. We don't have to hide that the destinations in North America are very appealing.

The destinations in North America are very appealing to Brazilian travelers. So, losing relevant access to such highly desired market, market, will put us in a more challenging situation before



our competitor. Because they have partnership to deal with this demand. And they also have their wide body planes traveling this routes that are so desired by Brazilian travelers.

But we have a privileged position in terms of our relationship with Gol. And Gol has some routes in North America. And this will become important in our operations. Nevertheless, we are seeking new to increase our connections. Going after new rates, new partners. So, I don't have any concrete in terms of the impact in our activities, our results. But it will, indeed, impact the attractiveness of our program.

Sr. André: Just like Marcos said. Of course, Delta has being an important partner. But we still have Gol, we have Copa. We have flight to North America via AeroMexico, via Air Canada. We have other partners that will help us compensate for that. And we will work to try to reestablish this value proposition and become even more competitive. Because we know that North America is a desired very important destination having a good connection with North America is essential for our business.

Mrs. Paula: Thank you.

Operator: The next question is by Daniel Vaz, Santander.

Mr. Daniel: André, Marcos, Maria Laura. Thank you for answering my question. I have 2 question. The first is: I would like to know what your vision is for 2020. Any highlights, both negative and positive? And do you think that this dynamics of 1/3 purchases of air tickets as they were, not just with Gol. And the second question is about Smiles Argentina. Have you already been able to see any impact in the changes in there?

Mr. André: So, let me start with the second question. With Argentina. We know that Argentina is going through some difficulties. Related with inflation, interest rates. With the election, now, we hope things become more stable. But our operation in Argentina have a long-term view. It's a very lean operation. Of course, the results are coming in a slower pace, because, when opened our business there, the outlook was better.

But it is a company that has a good value proposition for partners and for costumers. And we have being able to grow. Of course, the business there is small when compared to Brazil's. But as I said, our operation there is very lean. We, the investment there are not that high, and we are starting to see some interesting results. So, our plan is to continue to operate in Argentina. And we are certain that we are going very good results, very soon in that market.

As for 2020, I can't really tell you what is going to happen. If we look at the market today, as you said yourself. We are operating with Gol and we have some caveats. But based on what we did in the past, the investments that we made in the past. I think that we can navigate this market, even in more complex times, with a lot flexibility and intelligence. We really mastered this market. Of course, we are going to see some impact of the movement of the external market. But we have to see. What the scenario will be for next. The market has undergone many recent changes.

Marco, would you like to add something?

Mr. Marco: Thank you for your question. I don't have anything to add.



Mr. Daniel: Thank you.

Operator: The next question is by Paula Atanassakis, Bradesco BBI.

Mrs. Paula: Hello, hi. Thank you for giving me the opportunity to ask another question. About the extraordinary adjustment. This was announced as a relevant fact, a while ago. Do you think we can see any retroactive impact of this extraordinary adjustment? Hello. Hello?

Operator: Ladies and gentlemen, please wait. The speakers may proceed. Ladies and gentlemen please wait. You can answer the question now.

Mr. Marcos: Paula, are you there? I hope everyone can hear me. We don't have any updates related to your question. All the request that we received are now being evaluated by our administrative board and the committee, which is independent from the board. And also, our board of directors. Thank you.

Mrs. Paula: Thank you.

Operator: Next question is by Lucas Barbosa, Morgan Stanley.

Mr. Lucas: Good morning, André, Marcos, Maria Laura. Thank and congratulations for the results. I have 2 questions. First, is about the anticipated buy of air tickets from Gol, during this quarter. If we look at the transactions, is about 115% of the CDI, at the time of each transaction. I'd just like to understand the rational of Smiles, to carry out these transactions at this level of the CDI. At times of very low interest rates. And also, about the limit spent with Gol air tickets in the past 12 months.

Mr. Marcos: Lucas, thank you for your question. This is Marcos. The rational is that today our investment policy follows a guideline. According to which, the instruments in which we can invest in the capital market have a remuneration very close to 100% of the CDI. And any allocation and these anticipated purchases, with any supplier, and specifically with Gol. They have a higher remuneration. In respect of the limit of these transactions. In the past months we've being consistently operating at this level. A global value equivalent to the 12, last 12 months of consumption of air tickets. So that's the limit that we are working with today.

Mr. Lucas: Thank you, Marcos. If you allow me, I'd would like to make a second question. About the breakage revenue. In this quarter, it was a little higher than the other. Is there any different effect that affected this item?

Mr. Marcos: That's a great question. Yes. In this quarter, the breakage revenue was a little higher. And there are some specific reasons for that. Including the variation of the unit price. Because we have being moving on different revenue and the burn earn is higher also, which allow us to recognize this at an accelerated pace. But when we look at the accumulated for the year, this is very in line with the same number we saw last year. Actually, the numbers are very close to our internal projections, as well. So, no. There was nothing striking about this change. Although we were very active in terms of campaign, interaction with the costumers. There was no



extraordinary item that could lead to an outlier breakage and we are not expecting anything like that for, for quarter 4. We are changing the profile of our promotion; we are improving the quality of the engagement with our customers. We've seeing quarter where the miles expiration was very high because we accelerated our campaign with a certain partner too much. So, we are working on this. To improve the quality of the relationship with our costumer. So that's what I have to say about the breakage. I don't know if I answered your question.

Mr. Lucas: Yes. Thank you, Marcos.

Operator: If you wish to ask a question, please, press *1. This conference call is now closed. Thank you for participating and have a nice day.

This conference call is now closed. Thank you all for participating and have a good day.