



## Smiles Conference Call – 4Q19 February 19<sup>th</sup>, 2020

**Operator:** Good morning, ladies and gentlemen, and thank you for waiting. Welcome to the Smiles' conference call to announce the results of the fourth quarter of 2019. Following the company's presentation, we will start our Questions and Answers 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 given 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 here with us Mr. André Fehlauer, CEO, CFO and Investor Relations, and Maria Laura Pessoa, the Manager of Investor Relations.

Mr. André, please, proceed.

**Mr. André:** Hello. Good morning, everyone. It is a pleasure to be here to share the results of the fourth quarter of 2019, and also to make an assessment of the whole year of 2019 and our results presented by Smiles.

On slide 3, before I start talking about a quarter, I would like to share with you some of the highlights for the year of 2019. Here are some of the main figures that I would like to share with you. A total of 6.3 million redemptions that took place this year. In my opinion, this reflects the high engagement we have with our customers, especially when you think about airline tickets. But if you consider the other products we have as well, such as other travel products, such as car rental, show tickets, hotels, so all the products that we have available to our customers, so that they can really enjoy our program. To the right, on the right-hand side, we can see BRL 2.6 billion in gross billings, 14.7 increase in relation to last year, to the past year. When we look at 2019, the first half of the year was much stronger in growth than the second half of the year, that was much more challenging in terms of billing's growth. You will see that last quarter, this is also reflected because of the challenges, the competitiveness of the market and also the ability of being more rational in price setting, so that we can have a better revenue. We have reached BRL 1.2 billion in revenue. Again, it's important to highlight that it was a very challenging year, especially the last two quarters. And most specifically in the fourth quarter, as you will hear in this meeting. We have a very lean structure focused on making quick decisions with 146 employees.

Another important point to share with you is how we have evolved in our business. This part of the business has always been very strategic to us. And the main provider we have is Gol. We are talking about the redemption of about 370,000 hotel stays and 325,000 car rental bookings. This shows our ability to bring to Smiles options to increase customer engagement and other travel related products, not only airline tickets, which are still the main wish of our customers. We have closed the year with almost 17 million clients in our customer base. That's a significant number and most of them are Gol customers. They usually are Gol customers. They fly with Gol flights and there are some of them that are familiar with Clube Smiles and other products of our brand, and they end up engaging with us too.

Now moving to the next slide, I would like to highlight a few points of the last quarter, fourth quarter, related to partner's products and innovation. As you know, this is public information, Gol has established a codeshare agreement with American Airlines. Since last week, we started selling commercial airline tickets with American Airlines. Everyone is familiar with American Airlines and you're familiar with its power and



stand. So, when you look, the connections between Brazil and the United States, will become much more competitive than we were in the past because we'll have much higher number of destinations, more available seats so that we can make this offer to our customers. Especially for Florida, in Florida, where American Airlines is very strong in its hub in Miami, and that's a very highly sought destination by our customers. We'll probably have, in the first half of the year, increases in the frequent flyer program. And we will establish this joint program with American Airlines that will give us access to award rates, which are more competitive. And with that, we can offer even more for our customers who want to travel to North America. So, now we have American Airlines, also have an agreement with Delta, Gol of course flies to the United States, Air Canada, AeroMexico, Copa, so we have several options to take our customers from Brazil and from Argentina to North America. This partnership with American Airlines strength our main goal which is to make our customers to be able to travel to destinations they love. And the United States and Canada are destinations that our customers really look forward to going.

Now, let me talk about the partnerships related to tickets. We want to offer a full package trip. If they're going to the United States, our customers can redeem tickets for theme parks, specially Disney, Universal and all the parks in Brazil too, like Beach Park and Beto Carrero theme park. That's an interesting point because they can travel with Smiles and they can get the full travel. So, I'm talking about Uber to the airport, renting a car, hotels, now tickets to theme parks, cruises. So, the main message is we want to offer the full package to our customers using Smiles.

Now, let me talk about the co-branded credit card that we have for Smiles. I came from the credit card industry and I've worked there for quite some time. I believe that we have worked so that we can make a co-branded credit card the best option for Smiles' customers. In addition to the benefits, our customers we have using the visa brand, he'll also going to have benefits in terms of luggage, in terms of lounges at airports and things like that. What's new about this, is that we have a challenge to make the co-branded credit card the preferred method of payment in the Smiles website. We want our customers to earn miles back, as the earn points back as they use the co-branded credit card. This will reinforce the presence of our credit card and we want to reduce friction from customers making sure that they are increasingly pleased and satisfied with our program. We have had a significant growth in the co-branded credit card with our partner banks, Banco do Brasil, Bradesco and Santander. We are selling this at our website. So, I think you can expect a lot of new things related to the co-branded credit card, that it will increase its attractiveness.

Now, in the next slide, I would like to share with you some updates about Smiles program in Argentina. Let me tell you how we are expanding our next initiatives there. We were able to increase the availability of seats for our customers in Argentina. We are working a lot so that we can provide all Smiles' benefits that we have in Brazil, also offered to our customers in Argentina. We have launched a miles transfer product for our Smiles Argentina clients, that's something they had been expected for quite a while, and that's an innovation that Smiles had and then took to Argentina too. We have also implemented a partnership with the Banco de Galicia loyalty program called "Quiero", one of the main loyalty programs of banks in Argentina. We announced promotions with that recently. So, we have achieved very good results in customer engagement with the Quiero program and with Smiles in Argentina. Recently, we also announced a partnership with the Banco Municipal de Rosario, that's a very relevant bank in the region of Rosario. That's how Gol operates. That's a region where Gol operates. So, we are working with this bank so that we can also increase customer engagement through their credit card loyalty program which is called Muni Plus.

In the pipeline for Smiles in Argentina, there are many other banks that we hope to establish partnerships with. We have run some surveys and followed up the main blogs in Argentina. Our brand ranked fifth the last



year in terms of preferred loyalty program. And in 2019, it ranked third. We have grown our brand awareness there. We are on the right path so that we can become more and more relevant to our customers in Argentina.

Now, moving to the next slide, I would like to talk about innovation. Smiles has always been a very innovative company as part of its DNA. Along 2019, we have made changes to our innovation program and we have created the "Inova Smiles". Our main goal is to increase the engagement of the whole company, of all employees, so that we can think it using an innovative way for the company. The Inova Smiles program encourages any employee to suggest ideas. Those ideas go through a committee to see whether it requires some adjustments, and if it is approved, it is pitched to the executive committee so that it can be approved. We are very happy with the staff engagement. We have reached 40% of staff engagement levels. We received over 200 ideas and eight of them have already been approved. One is already in place and has paid back already. There is one important point that I would like to highlight about this program is that when an employee submits an idea, he is awarded if the idea is approved. This participation in the program helps him or her in the annual assessment. So, if an employee submits an idea and if this idea is good, they may stand out in terms of their career path. We want to improve our innovative DNA and by establishing a good structure, so that the ideas have a beginning, middle and end, so that hopefully we will get great new ideas that will give us even more competitive edge.

Now moving on, let us talk about our figures for 2019. So, we will talk about the fourth quarter and the whole year of 2019. In terms of gross billings, as we mentioned, we total 14.7% increase in growth, but the fourth quarter accounted for a much smaller growth, less than half of the growth rate of the year. This is due to the increased competitiveness of our competitors. We have worked a lot with the banks and improved sales of points on miles. We have rationalized how we are bringing the right customers to smile, so the slower growth reflects those two things: the market competitiveness and a rationalization of miles purchases to our partners.

Now moving on, talking more specifically about redemption. There are two pieces of information that are very important. First, our direct redemption margin. There has been a 6.9 percentage points drop related to the last year, which reflects the mix of airline tickets we have purchased from Gol. To the left-hand side, you will see the percentage rate of our commercial rates. If we look inside the quarters, you have seen that has been a major number of commercial rate has increased above the level of 30%. This has been the most challenging period of our history. Gol has had increasing costs in this operation in the past. We also announced the transfer price so the standard Smiles' tickets, as a of first of January this year, are 41% more expensive. So, we already had a significant increase in relation to the mix and this mix is expected to maintain these levels. We have faced these challenges. So, in summary, our main input is more expensive. How have we faced that? We are trying to be more efficient in terms of the models we use, being more creative of what kind of offers I'm going to make, what kind of flights I'm going to offer. I'm trying to work to provide the right customer with the right ticket. But there is a limit to how much we can share this price with the customers. We have maintained a margin and we have maintained a customer engagement which is the most important point. We want to make our customers engaged. That's the reason for our existence. We want our customers to maintain engagement with our partners like Gol, financial partners and also the B2C customers. These customers should see value. If they believe that there is no value in being part of the Smiles program, that's bad. So, this is why we need to keep those customers engaged.

In the following slides, we also talk about the direct redemption margin. At the end of the quarter, there was a 6.9 drop, 39.5 as of the end of the year. So, this 39.3 does not reflect the path we are taking when we take



the ticket mix, standard tickets and the competition that we have faced with the main players of the market. As we also share in the guidance of last year, we said we would work with a 20 to 25% margin and that's the reality we're facing as we're seeing the business unveiling throughout the year. The margins are different from what we expect when you see that the 39.3% was the margin for a 2019.

Now, let's talk about the net income in the following slide. We completed the year with 626.7 of net income, a small drop considering last year. And, again, I'd like to reinforce that this was a very challenging period for Smiles. The business model is very resilient, and we are working very hard to make it happen, but it's very challenging. In the quarter, we completed the quarter with 179.5 million and if we take, million reais, if we take the non-recurring items, we are talking about BRL 142 million. This shows in terms, in image and revenue, this shows and is reflected also by the challenges that we have faced. I would also like to show you in the left-hand side, there a lot of tickets with offers and airline tickets and there is a part in there of how much the co-branded Smiles credit card gains when he pays with his co-branded credit card. So, in addition to the miles that he gets or points that he gets in the card, he also gets more points by paying with a co-branded credit card. So, this will affect their experience focusing the main payment product that we use in our website.

That's what I had to share in terms of results and, before we move into the Q & A session, I'll also like to share some information. These are figures that are not part of the presentation. When we talk about customer engagement so, how can we engage customers? Because that's the main goal that we have. Last year, we had over one million customers that have activated their accounts. It's not that they joined the program, is that they have earned points or redeemed points in the program for the first time. That's very nice. This year has... The growth was 18% vis-a-vis last year. So, customers are becoming more engaged either because they've earned miles or because they redeemed miles. And the wheel turns. So, he starts check in at the balance of his points and starts looking for more airline tickets. So, despite this competitive situation that we have still been very challenging, we have good results. I believe that 2020 is going to be very challenging in the sense that we still had pressures on Gol, the transfer price was very significant for this new change for 2020, as well as high pressures from the exchange rates. The main international partners we have are affected because of the high exchange rate. The airline tickets become more expensive and it affects the decision of our customers to go abroad or not. So, the exchange rate, foreign exchange rate, also affect our ability to sell more tickets. But our team is very competent. They have developed several tools so that we can be even more effective in our relationships with customers, whether it is in redemption of airline tickets, in earning more points and co-branded credit card, and also other engagement tools are very good. And our app, for example, we have over three million downloads of our app. It represents today about 40% of our number of reservations made. This has been a very good tool for customer engagement. All these improvements we've made, all these innovations in customer relationships will help us minimize the impact of the adverse scenario that we're facing.

So, that's the end of my presentation about the initiatives and results. And I would like to open for questions.

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

Our first question comes from Gabriel Rezende, from Bradesco BBI.



**Mr. Gabriel:** Good morning. I have a quick question related to the discussion on the direct redemption margin considering the 35.9% margin. Should we expect an upside based on the guidance of 2020 that indicates a margin ranging from 20 to 25%?

**Mr. André:** Thank you for your question, Gabriel. In fact, it's important to highlight one point. We didn't have the transfer price considered the 35.9% figure. Our standard rates account for 60% of our tickets and they have had a 40% increase in price. So, we are keeping our guidance. That's very challenging. And Gol has had a lot of pressure because of fleet and fleet management, and it expects to keep good results. We believe that the 35% figure does not reflect what is going to happen along 2020 while maintaining this guidance, especially because of the increase in the standard price.

**Mr. Gabriel:** Thank you.

**Operator:** Ladies and gentlemen, if you want to ask a question, please press \*1.

Next question is from Victor Mizusaki, from Bradesco BBI.

**Mr. Victor:** Good morning. I have a question. You mentioned new members that have been activated in 2019, about one million new customers. Are they joining the program through Gol airlines? Are they passengers that are traveling by plane for the first time, or are these customers contacting Smiles directly?

**Mr. André:** Thank you for your question. The main source of new enrollments, of new customers that joined Smiles, more than half of them, come from customers that are flying Gol. Our main source of new enrollments are from Gol. We also have some more organic initiatives done in online media that affect this result, but the main partner for this particular case is Gol. First, because these customers have a reason to enroll. They are flying so, maybe they can earn some miles with that. This is why they end up joining the program and they are earning points immediately. After that, they also use... they also fly by plane. It's easier to explain to them that if they fly more, they can earn more points and there are several programs. So, you also offer the co-branded credit card, transfer from banks, the Smiles' Club, and other opportunities to earn and redeem points. And those are not necessarily new customers. They are engaging for the first time. Sometimes their record was inactive. They started using that. Maybe they enrolled at some point and never used that, and now they decided to transfer miles from a bank or earn points by flying or decided to redeem points. So, those are new customers in terms of engagement, not necessarily a customer that has been for a short time in a database. Maybe they were dormant in the of the database for a while. I hope I answered your question.

**Mr. Victor:** Again, talking about customer engagement and new customers. Do you have figures for Argentina in terms of number of customers that you have there and this new Smiles operation?

**Mr. André:** I apologize. We don't share this information about Argentina separately. The main challenge we have in Argentina, and that's something we discussed with the team there, for patients to be able to earn points and redeem points, they need to have an account with us. So, what we've been doing in Argentina lately is to raise the awareness of the brand. We have programs, program initiatives and radios and on TV.

I don't know if you've had the opportunity of going to Argentina in the last year, and there were points that were all in orange because of Smiles to show what Smiles is, to show customers how they can join this program. So, these initiatives have been fruitful. If you join a program like Quiero and the Banco of Galicia, the number of new enrollments is also very high. So, our bank partners and our physical media like in the airport, and also online media, media like radio, basically, we've been able to use those media initiatives and to raise the awareness of the brand. So, now Argentinians are more curious about the program and are



enrolling. The main blog of Argentina called Info Viajera that makes assessments about programs... So, we move from fifth as a loyalty program to the third position. In 2020, I think we'll reap the fruits of all the efforts we have made. I think our results will be more consolidated in 2020. When I put together this operation in Argentina, I needed to explain what Smiles is. Now, when you talk to banks, actually banks contact us to establish partnerships. We are more relevant than we were a year ago. Even in B2B. So, our product is increasingly more attractive. And also, there's more brand reinforcement.

**Mr. Victor:** Thank you.

**Operator:** Ladies and gentlemen, once again let me remind you that if you want to ask a question, please press \*1.

The question and answer session is completed. Now, I would like to turn over to Mr. André Fehlauer for his final remarks.

**Mr. André:** Thank you for everyone who participated in our conference call. Now, in 2020, we will work very strongly on some points that we already mentioned. But I'd like to reinforce the Smiles' Club, the co-branded credit card and we want to help our partners, whether they are financial partners or airline partners, to engage more their customers with these brands. That's the reason for our existence: we want to engage customers because we believe that Smiles generates a lot of value for them. So, despite this challenging scenario, we want to work very smartly with artificial intelligence, statistical models, CRM, pricing strategy, so to make sure that customers are more satisfied. So, when they think about miles and flights, they'll think about our airline partners and they'll think of Smiles. So, thank you very much for participating in this conference call and see you next time.

**Operator:** This conference calls of Smiles is now closed. Thank you for participating and have a good day.