



## Smiles Conference Call – 1Q20 April 29, 2020

### **Operator:**

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to the Smiles' conference call to announce the results for the 1Q20.

Following the Company's presentation we will initiate the Q&A session. To enter the waiting list to ask a question, please press \*1. Should you need assistance during the conference call, please request the help of an operator by pressing \*0.

We would like to inform that information given during this conference call may contain forward-looking statements or statements about future expectations. Such information is subject to known and unknown risks, and also uncertainties that could cause such expectations not to materialize or to be substantially different from what was expected.

Today, with us, we have Mr. André Fehlauer, CEO and CFO, and Mrs. Maria Laura Pessoa, IR Manager.

Please, Mr. André, you have the floor.

### **André Fehlauer:**

Good morning to everyone. Thank you very much for participating in this conference call. We are here to present the Smiles results of the 1Q20. I hope everybody is well, taking care of themselves. So that we can remain in good health before this pandemic, and we hope it ends soon. So let's go to our presentation. And following, we will have a Q&A session.

Here, I have a number of highlights of the 1Q20, and I will talk about these highlights throughout my presentation. I would like to show that we ended the quarter with the billing of R\$629.6 million. This is a very small growth when we compare it to the last year.

We also have, in reality, a strong effect from the COVID-19, especially during the first two weeks of March. People were paying attention to the pandemic and the unfolding of this new reality, and we did have an effect in our billing projections. This was offset by the Smiles & Money. So, as you can see, these are the effects of the pandemic.

We ended the quarter with the deferred revenue of R\$1.9 billion. The deferred revenue is projected to the future, and there will be redemption in the future as soon as our customers start scheduling their travels. We have our co-branded credit card. There was an increase of 70% in the sale of this product this quarter. So it is very interesting when we see the consolidation of our portfolio that I will mention. This means that we had a 55% growth in our customer base, and this is very interesting when we see our product concentrated.

On the other side, what happened due to the crisis and the pandemic, people are looking more for our Shopping Smiles. This is a platform that gathers the main retailers of the country. And many people instead of using the redemption of these Smiles for traveling, they started buying products. We have 66% more orders, and this is something that we observed this quarter.

We continue with an extremely efficient cost infrastructure. We have 147 employees in Brazil and Argentina, and 100% have migrated to home office. So 100% of our operation is done through home office, and we are using very proper tools. We are full of infrastructure, and we have been able to maintain our pace of work even working from home.



We ended our quarter with 17.2 million clients, and our gross billing was R\$629.6 million. But subsequently, we will give you more details.

When we go to our initiatives, on slide number three we will talk about our co-branded credit card. We have a co-branded credit card with three banks, and this gives benefits from priority when onboarding. This is a very interesting product, when they concentrate their expenses in their bank and then they get miles.

We have increased our sales and, taking opportunity of this moment, we will have a greater concentration on these co-branded cards. In each 2 accumulated miles, we offer another one, so they have a reward when they use the card.

And when we talk about banks, there was also an increase of the bonus miles validity in bank accumulation. And this is something during this pandemic moment. We had given them 12 months.

Let me go to our next slide. This is how we can give tranquility to our clients. So Smiles is a company that is known because it is easy to deal with. We know that this is a very difficult moment for our customers. And we are making it easy to cancel flights without paying penalties. And we have been able to do this very quickly in record time. Our customer can go into the site. They can cancel their ticket automatically.

We have been able to resolve the problem of the customers very quickly. This is, of course, because they cannot travel due to the current process. And many customers are highly surprised on how easy the process is. And in their opinion, this is going to make a difference in their life when life goes back to normal. And all of it is a reflection of what they just went through right now.

We are giving guidance to our customers, and there is a site where they can read and see what they can do. We have the biggest market validity, 20 years. And as we said, we increased the validity of our years to one year. So this is just to convey tranquility to our clients. We tell them, "please feel at ease, we will help you with whatever you will need".

Going to slide number five, here we want to understand what the customer is going through. This is empathy. We believe that in 2020, our customers will be able to fly as much as they wanted to change. And the facility of changing categories or maintaining their categories is going to be difficult. So we have recognized that we can help our customers keeping their categories.

On slide six, as I mentioned, we have always had an e-commerce platforms that was highly structured, very simple to use, and it works properly. And now this platform has demonstrated all its power, and it is very stable. And here, we have 138% margin growth year-on-year, 66% growth in the number of orders year-on-year and 90% growth of access in the last month.

Here, we are showing about electrical appliances, how to do exercises at home with Magalu, because everybody is using home office, and we are able to connect with them. Of course, this is not going to replace the amount of business that we have with airline tickets, but Shopping Smiles has grown a lot this quarter.

Another very important point, an exclusive product that we have, the concept is reserve now and travel afterwards. It is very difficult to schedule your trips, but when things go back to normal, we want the customer to feel at ease, to plan their future, to see what their trip is going to be like, to make their reservation, to have a good period, to plan the reservation.

Here, we are getting a 50% discount, and we increased the amount of reservations they can make. Here, they can make 4 reservations. And we have been able to increase the addition to this product.



And I believe that we have been very assertive with our customers because they understand that they could use these tools like Smiles to plan their future trips that will take place for sure.

When we go to slide number eight, we will talk about our strategic action. When it comes to communicating with our customers, we are communicating with them throughout this period. Everybody is very anxious regarding what is going to happen. We are taking advantage of this pause.

We say travel in your house, Viaje em Casa, a campaign that encourages the long-term planning without leaving aside the dreams at home with loved ones. And you can do this with Smiles. I believe that this has changed a lot, and we have received a lot of positive feedback from our customers regarding this campaign.

Now we also have a commitment to society. We are working together with GOL and Localiza. It is a way of thinking and supporting who is in the front line, taking care of everyone. GOL and Localiza are constantly thinking these professionals, and in miles credit to health professionals that has to displace around Brazil to support affected patients flying for free with GOL. Every GOL flight traveler receives 1,000 Smiles. And for each car rental, the professionals get 500 miles.

There is an interesting action taking place in Argentina. We donated to a foundation there. And the customers are participating in this campaign. We are going to donate, but you can also help. When you bring your miles from the bank to the Hospital das Clinicas, and there has been strong engagement from our customer. There was over 90% accumulation and a lot of growth during April. So Smiles is an engagement tool for our customers. And through their miles and through their platforms, they can help society through such a difficult moment.

When we go to the slide showing our figures, here we are talking about a gross billing of R\$626.6 million, aligned with last year and a drop when you compare it to the same quarter last year. Here, we have Smiles & Money that comes from the volume of issuance and also of the volumes of our credit cards with banks.

During the first two weeks of the quarter, we had communication. We have spoken personally with all of the banks throughout the weeks, and we have tried to help the banks for customers to migrate toward these products.

In terms of net revenue, there is an important effect when we see the cancellation of airline tickets. There was a major amount of cancellation of airline tickets, something unprecedented. These are customers that were not able to travel and started to cancel beforehand, and we started dealing with this through online tools, and this affected our revenue.

This behavior has already stabilized at a lower level, much lower than what we expected, but there was a strong peak in two weeks. We have to see the cancellation of the entire quarter, and over 90% was concentrated in very few days. And we had a provision for the next quarter because there were people that had issued tickets until March 31, and this is an effect of R\$22.7 million because of the current phenomenon.

On the other hand, when our customers canceled these airline tickets, the miles go back to their account, and our stock of revenue is here. Our liability of deferred revenue increased 11.2%. This is a strong growth, and when we see year-on-year, it is even stronger.

We have stocked revenue. And as soon as the market goes back to normal, we will have promotions for our customers so that they can travel on vacations or on business. And we have a platform that is ready for them to issue their new tickets.



On the next slide here, we have the margin. Last year, we had a guidance and we eliminated this guidance because of the uncertainties. We grew with 26.7%. If it were not for the pandemic, we would have closed with 30.7%. We have offered to our customers an interesting value proposal, and we have a sound margin, although we no longer have a guidance here.

Our net income was strongly affected. I have already mentioned this, it is R\$56.3 million. If we eliminate the effect of the pandemic, it would be R\$71 million. When we see the pandemic process, we believe that our figures were above our budget until March 12. As of this date, when the amount of deaths and the cases are intensified, we saw that there was a great amount of cancellations that affected our income and also affected our billings.

When we go to the next slide, I would just like to end this presentation and to tell you that the Company has its 127 employees totally engaged and encouraged. We have worked on our main strengths that is liquidity. We have a lean team that makes quick decisions at Smiles.

The Company is a native online company, and we have always been digital. And we are working a lot to creating more innovations. And we are working together with the airlines in order to help them during this moment, in order to have more travelers as soon as the restrictions are lifted. Our foundation is very strong, in order to end this process stronger than what we started.

We are here at your disposal to answer questions. Thank you very much.

**Gabriel Rezende, Bradesco BBI:**

Good morning. I have two questions in reality. If you could elaborate on how the gross billings evolution is during the 2Q, and how you expect in terms of recovery? I know that we are undergoing a very difficult situation, but I would like to know how you expect to recover. And also, how you will be affected by the airlines in the short term?

**André Fehlauer:**

Thank you for your question. As you mentioned, it is very difficult to imagine the different scenarios because we do not know how the crisis will unfold. When you talk about the GOL network, because GOL is flying with 10% of its capacity, the demand has disappeared in terms of national and international flights.

So we have worked in a number of ways. We have to guarantee through our tools to displace this demand for the future. So especially flights for the 2H and a curious concentration of short term, sometimes you have something that you cannot postpone, and we have worked on this line.

And we want our customers to continue with Club Smiles, with our co-branded card, and we will address this to understand how things are going to work as soon as things go back to normal. We are trying to transfer these flights to the flights that have demand.

**Gabriel Rezende:**

The first question was the evolution of cross billings and how you see the recovery, and also the emergency. There is a certain number of flights for each airline.

**André Fehlauer:**

The next weeks will be very important to understand what is going to happen. And I believe that the airlines will be ready to see what the network will be like. Of course, GOL wants to increase the amount of flights as of the month of May, and perhaps, we will start increasing the amount of airline tickets that are sold.



The international panorama is not as good. We believe that it will take longer to sell more international airline flights to Europe, to Argentina. So we believe that the recovery of international flights will be much slower than domestic flights.

**Gabriel Rezende:**

Thank you very much.

**Sérgio Goldman, Esh Capital:**

Good morning. Thank you for the opportunity. Could you elaborate the readjustment of transfer pricing of 40%? How did you establish this level? Thank you very much.

**André Fehlauer:**

Thank you for the question, Sergio. Last year, we underwent this process, and the calculation is very complex. And this takes into account the amount of seats available, the number of passengers, the price of fuel and they sold to Smiles instead of selling to the network.

This is a very complex equation. Perhaps, we can talk about this in another moment personally and when we see the exit of Avianca from the market. So GOL has a number of customers buying these slides in cash. As a consequence, we started placing passengers in flights that were fuller. So when we talk about, this is displacement. With this, we have an opportunity.

The main effect was GOL had full airplanes in 2019 when we see the calculation of October. And when we see September this year and September last year, we see that there were readjustment opportunities that were calculated in the formula, and the result was 40%. This is done on a yearly basis, and there is an independent committee that assesses and approves this.

And what was atypical this year was the capacity that GOL had, and it had fuller planes. So I believe this was more atypical. But historically, in other moments, GOL had an excess of capacity, and we offered lower prices. So this is nothing more and nothing less trying to offset in the future what happened in the past years.

**Gabriel Rezende, Bradesco BBI:**

Just one more question, please. Will it make sense for Smiles to use their cash flow to buy direct airline tickets from GOL or from international partners? Perhaps some partners like American Airlines would be interested?

And another question, my last question, does the drop in breakage reflect on the validity of the points?

**André Fehlauer:**

Gabriel, thank you for the question. This discussion of the operations, Smiles and GOL, this is business as usual. We have this hedging contract in a relationship when we have extraordinary operations to buy airlines in advance. These operations can take place, they have taken place in the past. And let's see what happens with the pandemic and the capacity that GOL has to initiate their flights. This is a normal process following governance.

Regarding international partners, I do not believe that this is the right moment to see this. There is a demand for this type of product, and it is very uncertain to do anything because we have to



understand what kind of availability these companies will have in Brazil. So currently, I do not think we will be doing this with international companies.

Regarding breakage, the change of validity, we still have not seen the effect here because there are very specific campaigns. But what we can see in the breakage in the quarter is the amount of miles. We are talking about airline tickets. And when the miles go back to their account, they have already matured. So we use this mileage, and there is breakage, and we renew these miles for six more months. This is not something very important right now.

**Gabriel Rezende:**

Thank you very much.

**Maria Laura Pessoa:**

We received a number of questions through the webcast. João Pedro Vega is asking us about the impact of the current scenario on the breakage rate.

**André Fehlauer:**

The breakage rate will be at the same level of the last quarter, despite the situation.

Do we believe that there will be an increase in the breakage rate because of the pandemic? As I was talking to Gabriel, we had the effect of the airline tickets that were canceled and miles that had matured. Now of course, we want our clients to redeem their Smiles when they mature, and they have done it through Shopping Smiles.

I do not believe that we will have a major effect on the breakage. I believe that we will have a breakeven point, because we have increased the validity of the miles in the bank account because we know that our customers, although they want to travel, it is impossible. So we will work together with our customers in these difficult moments.

**Maria Laura Pessoa:**

André, we have one more question from Christian Martins, if there is an intention of a buyback. And Christian asks about if we are interested in some type of M&A?

**André Fehlauer:**

When we think about share buyback, we believe that we have a major liquidity rate here. And we have to maintain our liquidity in order to strengthen our core business, which is a company that works with airline partners and the main interest is to have customers that want to travel with us. This is a moment of great uncertainty, and we have to maintain our cash flow and wait for things to get better.

Regarding M&A, we do not have any transaction that is being discussed currently. Perhaps opportunities will emerge in the future because of the crisis. But currently, we are not discussing anything regarding M&A.

**Operator:**

The Q&A session has come to an end. We would like to hand it back to Mr. André Fehlauer for his final comments.



**André Fehlauer:**

Thank you very much for your questions and your participation in our conference call of the 1Q20. It has been a pleasure to talk to you. To bring our call to an end, I believe that society is facing a very difficult moment. And we have to be calm and see what is happening. And certainly, everything will end, and we will be able to breathe calm air.

I would like to strengthen that this is an extremely lean Company, with very low fixed cost. A Company that is highly capitalized. It is digital. It was created digital. We are working strongly to innovate and to improve the services that we offer to our customers, to our partners. Our team is remote, safe, taken care of. And currently, we are doing everything so that the crisis does not affect us. And I believe that we will finalize this process even stronger.

Please take care of yourself. Please take care of your families, do not leave your home and stay healthy so that when everything ends, we will do everything that we used to do. A great hug to everyone, and thank you very much for participating in our conference call.

**Operator:**

Smiles conference call has come to an end. We would like to thank everyone for their participation.

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