



Operator:

Good morning, everyone, and thank you for holding. Welcome to Smiles' conference call to discuss the results for the 4Q18.

Soon after the presentation of the Company, we will begin the Q&A session. If you would like to ask a question, please dial *1. If you require any assistance during the conference call, please call an operator by dialing *0.

Please be advised 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 uncertainties that may cause such expectations not to materialize or be substantially different from what we expected.

Today, we have with us Mr. Leonel Andrade, CEO; and Mr. Marcos Pinheiro, CFO. We will now give the floor to Mr. Leonel Andrade. Sir, please proceed.

Leonel Andrade:

Good morning, everyone, and thank you very much for your support and thank you for being here with us. It is a great pleasure to start our presentation on our yearly and quarterly result for the 4Q18.

Before anything else, I know that many of you have been following us on our results for a long time. Six months ago, when we were presenting the 2Q results, I was the first one to say that was not a satisfactory result. And now, due to our employees, I have to say that we are presenting extremely satisfactory results.

We had an exceptional performance this last quarter, especially when we look at all of the indicators, which presented record levels in the historical series of the Company, which just completed its sixth anniversary.

Moving to slide two, we have our financial and operational highlights, showing record billing of R\$627.8 million. This was an increase of nearly 23%, so it was far above the average of any company in our industry, it is far above the growth of the credit card market, and even of the loyalty programs market.

It is a significant figure, above our guidance, which was already a high goal for the year. This translates into a huge gain in efficiency, clients, and, especially, with banks. What brought the highest billings for the Company this quarter was banks, meaning that we have many new clients who are coming in from our competitors to our program.

Accrued miles represented 29 billion miles, with was a growth of 20.4%. I have to show that billings grew by a higher percentage than accrued miles, so we had some price recovery. Redeemed miles stopped dropping, and now I think we are at a sustainable level.

We also had record redeemed miles this quarter, and this shows us the large engagement level that we have. Over the last few years, we did not stop growing in accrued miles, but the most important indicator is always billings. Our billing now means that we have great revenue and we will have more redeemed miles in the future. And, for the quarter, we had a 31.5% growth in redeemed miles.



Our partnership with GOL – and GOL itself – has been helping us, improving our market share gains, our efficiency, and it became the favorite company in the airline industry in Brazil. That means that we have a good level of competitiveness.

Our EBITDA reached R\$205 million, growing by 37%, and our financial results dropped in comparison to last year, but this was expected due to the reduction in the Selic rate.

We still reached R\$41.8 million in financial results, and this is great because it shows that we are having a more sustainable business in the future.

We mentioned net income before, and it was also a record, R\$164 million. This is the best moment the Company has had without any major nonrecurring events. This was a growth of 34%, which is a huge highlight.

The following slide shows our highlights for the year. When we look at gross billings, we also had a record, a growth of 19%; and this has been growing over time, quarter by quarter; in fact, we had a higher rate in the 1Q18, and I believe that this is sustainable for the next quarters to come. We will continue to have a better growth in billings in the Company.

Accrued miles reached 103 billion this year, which was a huge leap of 21%. This was the first time we had a level over 100 billion of accrued miles, and we also had record redeemed miles, 85 billion. So, we are growing healthily.

EBITDA reached R\$759 million, nearly 15% growth in the yearly comparative. So, we expected to have lower net income, and this is simply due to the comparison with 2017, in which we had a nonrecurring event of capital restructuring when we acquired Web Jet, as you all know.

The most important thing was the EBITDA result, which is growing and was the best in our historical series. Financial results were R\$221 million, and it is still growing in comparison to the previous year.

Looking at the last slide, since we have just completed our sixth anniversary, this was the sixth year the Company had these results, so we can see that we are getting better year by year.

We had the entire recession in Brazil, since 2014. This was a time when everything was against us: the credit card market was growing below average, the aviation market was still struggling, but we have been growing continuously and gaining market until we became the leaders, as we are today.

If we look at accrued miles, you can see that in 2013 we had under 40 billion; and now we are going over 100 billion.

Gross billings have had consistent leaps from 2013, having R\$1 billion in 2013, to 2018, having over R\$2 billion. And EBITDA, which maybe is the most important indicator for us, shows also a growth. It shows how healthy and predictable our growth is. We have never had any reduction in the Company's level so far, and I think 2019 will continue this trend.



The next page, five, shows a new partnership we have with Nubank. Nubank is a very successful company in the Brazilian market, and it has reached over 5 million cards issued, with a new target audience, which is very engaged and young, and we have a partnership with them. We are the only airline loyalty program that has a partnership with Nubank.

We are very happy about this, because here we were able to meet the requirements to have a partnership with them, which are basically on sustainability and usability, the way our clients are able to use Smiles, and they saw us as the best in the market. We are the only Company that has an app, a new calendar, and all that makes it easier to travel with Smiles. It is very good to be recognized by Nubank, and this partnership will be operational soon.

The next page also shows our educational role. We have been working more and more in this area. We are trying to become more transparent, and we are trying to make our engagement easier. In that sense, we have an educational platform called Dicas Smiles, which is for education, and we also have a YouTube channel called 'Te Levo com Milhas', which is purely educational.

On that specific point, I have no doubts that we will meet a requirement from our clients that was also very clear. Clients who use our products like having transparency and like being able to understand what is the best way to use the program.

So, we are at the forefront. We believe we have the best tools for our clients, the best products, the most innovative, and therefore we are also teaching the market how to use loyalty programs.

I am going to pass the floor to Marcos, and then will be open for questions. Thank you very much. Marcos, you may proceed.

Marcos Pinheiro:

Thank you, Leonel. Good morning, everyone. Moving on to slide number seven, here we see the evolution of accrued miles in our Smiles program. Once again, we can see how we have expanded and evolved in the business overall.

Our focus in engagement brought these results in 2018. We had a growth of 21.5% in the volume of accrued miles in a single year, and this is definitely only the beginning of our journey, as we have said in previous calls.

The next slide, number eight, shows miles redeemed, and this is what I particularly like the most. In 2018, we were able to deliver a growth of over 25% in the number of our redeemed miles. This, again, shows the efficiency of our programs with credit cards and the ways we have been working on to engage with clients so that they can travel more.

This is aligned with GOL's strategy, but, of course, we are always focusing on the traveler's journey here with Smiles. Our strategical planning will be shared with you in the market. Our expansion into analyzing the travelers' journey will be our focus, and this will become more relevant in the future.



Slide number nine shows our financial figures. Here we see the total gross billings. 2018 was a very fortunate year in which we had the opportunity of capturing billings of over R\$2 billion. Again, it is a growth of 19% year on year, and we will continue to grow and expand our business in a healthy and very profitable way.

Slide number ten shows a historical series of our net revenues broken down by quarter. This shows how we have been doing over the last two years. When we look at the latest figures, we see how consistent and regular this growth is, and this is the strategy that we have had to engage more clients, bringing more people into the travel market, and our journey has peaked at the 4Q, with a net revenue of R\$2.2 billion. Of course, this figure is quite striking for us.

Slide number 11 shows the evidence of our pricing strategy efficiency. Our commitment was to show our audience that it was possible to continue to grow and control our margins. 2018 shows this example. We had a direct redemption margin, which is our main indicator, around 41.9%. So, while our Company's management is very pleased with this stability, we know that this growth in profitability is precious, and this is within our strategy's expectation.

2019 will be a challenging year, as you all know. We have the effects that will begin to materialize, due to the transfer prices we saw in the beginning of the year, and, in the airline industry, this works a little bit differently. So 2019 is just beginning.

Now, with that being said, this will be nothing. We will continue to be able to grow in our billings at a very fast pace, and we will continue having profits in the Company.

Obviously, we will have some pressure over these direct redemption margins. This is already lined out in our business plan, but it is important to highlight that, at some point, this margin will reduce, and that should be the case for the next period in 2019, and this may apply to the airline industry overall.

So, the Company's Management is, of course, interested in offsetting this by having higher growth levels. Our idea is just to show that this is a long-term plan, and we are committing ourselves to growing the Company in the next five years; actually, in the next four years now. We aim to double the Company's size, and this is feasible, this is what we have been working on.

The final slide shows, once again, net income. We wrapped-up the year with R\$645 million in net income, and that is an important mark.

Our dividends distribution is also important. It was approved yesterday in our Board Meeting. We decided to pay our shareholders 70% of our net income, and this is exactly to make our expansion strategy possible.

We want to expand our business into the entertainment and travel industry, and the idea is to have a resilient business that can make the most of this moment in which the Brazilian economy is expanding.

That concludes our presentation. Thank you very much for listening, and we are now open for any questions you may have.

Pedro, Bank of America:

Hi, everyone. Good morning. Congratulations on your results, and thank you for taking my question. I actually have two questions. Given the favorable outlook we have on the economy this year, but also looking at the transfer price and the redemption mix, how do you think gross billings will behave over the next year?

And, secondly, do you think there is any space for redemption margins to continue to grow this year? And, if not, how will it behave? Those are my questions. Thank you.

Leonel Andrade:

Thank you for your question and feedback. Let us break this down. First, gross billings. I think we will continue growing aligned with the Company's strategical plans to grow by 15% over the year, as we said before, and I think we will be able to continue to grow if we stick to the plan.

Last year, in 2018, our prediction was 15% and we grew by 19%, so I think we have the same potential this year. We can grow by 15%, and even a little bit more.

Usually, the start of the year is very productive. We had a strong month of January, so I do not see any risks of not having double-digit growth, as we have been having. I think we will continue to grow above the market average, above the credit card market average, and far above the loyalty market average. We will continue getting market share, as we have in the last few years.

The second question was about margins. I do not know if we are going to be able to expand our margins. We finished the last year with a 42% margin. We do not expect that to grow, but I do not see any major risks to lose margin this year. We will continue to operate focusing on 40% margins, as we have.

Now, in the 1Q, we have some additional pressure because of the new airfare prices, and this is fair, this is a correct readjustment. But when we have new prices, we have to change the way we work. We have done it. And, in fact, everything indicates that we will continue to have healthy margins and the same growth rates in 2019. I do not see that margins will reduce this year.

I hope that answers your questions. Thank you.

Pedro:

Thank you. That was very clear, Leonel.

Raphael Frankel, Bradesco BBI:

Good morning. Thank you for the question. I actually have two questions. First, how have you seen your commercial relationship with banks after Avianca Brasil started its judicial recovery? Could that change anything for you?

Leonel Andrade:

Hi, Raphael. Thank you very much. No, I do not think anything changed in our relationship with banks based on Avianca's episode. Avianca has a contract with a few banks. I do not think it had with Itaú, if I am not mistaken, I know it did with other banks, but I have not seen any changes in behavior, from the banks or from our own behavior because of that. I do not think it interferes with us on the short term.

Of course, it is a competitor, they still face a number of challenges, so the market can be better for us. It will not get worst, but I think it is early to talk about this.

We still have our contracts, our agreements, our preferences with banks, and they are very solid. We are just announcing a new one with Nubank, but, with other banks, we have the same perspective and we will continue to grow this year. Thank you.

And I think you have another question, right?

Raphael Frankel:

Right, I do. My second question is, considering that the airline market seems to be cyclical, how is the redemption calendar going, to protect your redemption margins? Do you have any products you are going to launch to help-out with that?

Marcos Pinheiro:

We knew that this happens. We have been receiving some pressures, and this is becoming more and more important for us. We are trying to employ the right solutions for our clients.

A big tool we had was our dynamic calendar for searching seats. This allows us to precisely align our strategical preference with GOL's. One of the things we see is that we have a lot of synergy between Smiles and our providers, in this case, GOL.

For 2019 and for the next few years, I think we will have the challenge of continuing to innovate and to bring additional tools to deal with this cycle we have in the airline industry.

Now, with that been said, our excitement with our perspectives will remain the same. The idea is to continue to employ our business plan, to expand our area, to perfect our business and to start providing other solutions, like hotels, packages, car rentals, and other things.

We have a huge partnership with Localiza and we are only now starting to reap the fruit from it. We still have to deal with the matter of service costs going up, and that is a big challenge, but I think that, right now, our next innovations are in line, and we will give the next steps on how to integrate travel solutions.

We are going to start selling more services for travelers, and then we are going to put this in a user-friendly interface, make it very easy and intuitive, for our clients to continue to interact with us.

Leonel, do you have anything to add?

Leonel Andrade:

Thank you for your question. I just want to add one thing. I think Marcos answered it very well, but one of the biggest efforts we have is our pricing, our way of setting prices. We need to know how to adapt that so that we can have sustainable growth levels.

We have had these margins for six years and that is not by chance. We are far above the market average. We always say that we cannot ensure that this will happen in a far future, but on the short-term we do not see any risks, and this is due to our pricing and our way of working with clients, providing the best proposals and offers to the right clients.

We have been working better and better. This is something that will continue, we will continue working like that, so I believe that our future perspectives are very good, despite the challenging scenario that we will have due to the price changes.

That is very healthy for the Company, that is healthy on the short-term. The more sustainable GOL is, the better yields it has, the better for Smiles. This is a management challenge, but it is much better to have this perspective of a growing industry and a healthy airline. So we are definitely going to work on that, definitely. Thank you.

Marcos Pinheiro:

Let me just add something, I got excited about your answer. We have this six-year history, and one thing that we managed to see is that we were never standing still looking at what is happening in our industry.

This event, this recent change in price levels is a challenge, and there is something that we see as an incentive to continue to reinvent ourselves constantly. We know that we cannot stand still, ever. I think this is a part of our culture at Smiles, and I think that is also something that we always think about, how we can provide our services in a better way.

Raphael Frankel:

Thank you, everyone.

Isabella Araújo, Santander:

Good morning. My question is about your operations in Argentina. How much gross billings can come from those operations, and what are the expenses? We saw that, for the 4Q releases, R\$5.6 million were spent in expansion. How do we see this expansion impacting our market in 2019? How much more are you investing to structure the operations there, and what is the new normal? Thank you.

Marcos Pinheiro:



Thank you for your question. We cannot provide specific figures, but I will answer your question to a certain extent. In the Argentinean market, we see a huge potential for expansion. We have made this clear in previous calls. In our view, the Argentinean market can represent something around 15% to 20% of our billings in the next three to four years. So, we will execute this business plan.

How much will be invested is a strategical piece of information. We are still looking at our operations. Of course, when we have a new operation, this represents expenses and hiring people, advertising the brand, starting our local platform and offices. So we will have some additional expenses related to the international expansion, and this will be seen in the next quarters. But this is all part of our plan.

Now, what I can say that all of the analysis we have made for this decision showed potential high results for the Company. We still think that the way forward is expanding our business into the Argentinean market. It is very big and very culturally similar to Brazil, so that is a fantastic place to work on. No one does what we do there. That makes us feel at ease in continuing this journey and strategy of investing in Argentina.

I hope that answers your question.

Leonel Andrade:

Thank you, Isabella. First of all, I think Smiles is an asset light company. Our expenses are quite low in comparison to our billings and our potential. In the last quarter, the great news we got was that our expenses would have dropped if we did not have such good results.

We have a high level of PLR for our employees, and that is great. That is something that we want to have, to encourage them. Of course, this was a higher expense.

Regarding Argentina, we are starting our operation there this year. There was a total delay of 15 days so far. We wanted to start our operation at the end of January, and it is actually starting effectively this Monday. That is only due to a matter of bureaucracy and red tape, getting a license to operate, nothing serious.

Then, of course, we will begin having billings in Argentina. Everything has been implemented so far. Availability, the entire structure is ready. The expansion has been made, our first goal has been met, and now we are going to start billing in Argentina. I think Marcos already answered your question on that perspective, that is what we expect. Thank you for your question.

Isabella Araújo:

Thank you.

Felipe Vinagre, Credit Suisse:

Good morning, everyone. Thank you for taking my question. First, I would like to hear a comment on GOL's international expansion plan. It seems to be much more aggressive now. They are connecting Brasilia to several cities in the U.S., they have already announced one flight. How do you see that, and how would that affect your growth



perspectives? What is the breakdown on that? Do you think that redemption values will be different for those destinations?

And the second part was on cost. Although you had a 22% growth, I would just like to understand what the dynamics were on cost. How did you grow so much without investing that much in the commercial side of things? Thank you.

Leonel Andrade:

Felipe, I will first answer the question on GOL. I think its expansion helps us. For example, we started with flights to Florida, and the main sales channel when those flights were launched was Smiles'. So, we have remained strong in that sense.

We have had more clients coming in through GOL, we have been working together, so this is a loyalty program that really unites both companies, and opportunities are growing.

Soon, we are going to have a flight to Cancun, and that really helps us, because that is a destination that is very sought-after by Brazilians, and it will continue to generate more business.

I cannot tell you how much each one represents. It is still early, and this is a strategical piece of information. But, of course, the growth we have seen in redemption volume is a reflection of that. GOL has helped us significantly.

We have to highlight that we finished the year with nearly 6 million tickets booked. We celebrated 5 million ticket sold, so this is closely related to GOL's growth and success. Their expansion helps us and makes us better and more competitive. Thank you.

Marcos will also discuss the second item you asked about.

Marcos Pinheiro:

Thank you for your call, Mr. Vinagre. Regarding commercial effects, we saw a huge effect from expenses related to pricing and credit cards. We have implemented over time some solutions that aim to analyze these credit card expenses.

On one side, that is gain, but on the other side, that also reduces the significance of our important product, Smiles and Money. Part of that is because of the efficiency in processing payments that we received through credit cards.

Felipe Vinagre:

OK. Thank you.

Ivan Kleimann, Aberdeen:

Good morning, everyone. Thanks for taking my question. I have two questions on my side. First, if you could give us an update on the independent committee, how has it been working? As far as you can tell us, how is that advancing?



And the second question is about the dividend payout, which is under 100%. I remember that, before, this conversation was related to M&A, but considering that this will be on hold for now, while the transaction with GOL is negotiated, I would just like to understand this figure under 100% that you mentioned.

Marcos Pinheiro:

Thank you for your question. Let us start answering your question on dividends. What makes me the proudest about this operation is that the results allocation to pay dividends was unanimously approved by our committee.

Of course, this was discussed with our Board. Paying out profits in a moment like this brings a lot of responsibility to the Board members. Discussion was very good and, at the end, everyone reached a unanimous opinion, which was distributing 70% of profits as dividends offered a good sign of our business perspectives. It would provide appropriate profitability for the market overall, for our shareholders, and, above all, it makes the Company more able to grow and expand its businesses.

We truly believe that we need to retain part of our profits to make it feasible to start new projects and initiatives that will expand our business at the end. This concept needs to be consolidated in everyone's minds.

And I would even say something else: we did not take any decisions; we did not recommend anything basing ourselves on transactions and profits. No, we discussed the Company's interests. What is best for Smiles, forgetting about this ongoing negotiation.

We were very responsible in analyzing what is happening in the Brazilian economic scenario, what our perspectives are, what is happening to our main providers, what our relationship with them is, and what pressures we are under, as well as our growth opportunities.

So, we are still very excited about this industry. As I said, we are going to be growing above industry average, and above competitors. We are going to consolidate our leadership in the market, and that is natural. It is not just because we are pursuing a greater market share, but because our products, services and our innovation culture are better than those of our competitors.

We are very safe in continuing in the strategy. So, we are not paying 100% exactly to make our vision possible. That is what we discussed in summary. And I am very sure we will be able to execute this plan in the next months and years with our colleagues here.

Regarding the update you wanted on our pending efforts, I think I am going to frustrate you because, in fact, no one here at the Board is involved in that. We are not involved in the negotiation, so we do not know. We are only here to answer questions, when we get questions from the committee, when we get asked about our business model, when analysts want to clarify anything on the business, and that is our work. We can only tell them about our opinion, about our strategy, and we have provided them with information

on our business strategy. But regarding the process as a whole, we are not very involved, and we do not have any information to disclose.

Ivan Kleimann:

Perfect. Thank you.

Operator:

The question and answer session is now closed. We would now like to give the floor to Leonel Andrade so he can provide his final remarks.

Leonel Andrade:

Thank you very much, everyone. I would just like to talk about a few points so we can wrap up. I want to make it clear that Smiles has had this performance not because of any products or services specifically, but because of a number of factors. Our goal is always to become a better Company, and we are constantly focusing on that.

I think we are at a very good position in several businesses, several products and alliances. In our infrastructure, we have truly a great level of competitiveness in comparison to the market and our competitors. We are specifically focusing on our operations.

I know there is an ongoing transaction and that you are following it up, but I just want to make it clear that the Company's management is focused and will continue to be focused on operations, so that we can continue to expand, just as we have been doing.

This year, our international expansion will start to bear fruit, and we will continue to be the preferential partner for banks. We are very close to them and whenever possible we will continue to develop these strategical alliances. We have a high-level structure and we are the most robust Company in the market in terms of infrastructure and technology. We have the best in the world operating right now.

And I would like to thank our 122 fantastic employees. Actually, they are our biggest competitive edge. We are still excited about the Company's perspectives, and we will continue to generate more business. So, we would like to thank them especially, and we would like to thank all of you listeners. We hope to hear from you soon. Thank you for your support.

Operator:

Smiles' conference call is now closed. Thank you for taking part, and have a good day.



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