



**Local Conference Call
Springs Global
First Quarter 2018 Earnings Results
May 15th, 2018**

Operator: Ladies and gentlemen, thank you for waiting and welcome to Springs Global conference call to discuss the earnings results of the 1st quarter of 2018.

At this moment, all participants are on listen-only mode. After a brief introduction, we will hold the Q&A session where further instructions will be provided. Should you need assistance during the conference call, please press star 0 and an operator will assist you off-line. To obtain a copy of the financial statements and webcast presentation, please go to the Springs Global website: www.springs.com/ri.

Before proceeding, we would like to inform you that forward-looking statements reflect the current perception and also the management's outlook on the evolution of the business, which are based on the evolution of the macroeconomic environment, industry conditions and the company's performance and financial results. Changes in such expectations and factors may imply in results that may materially differ from current expectations and may present risks and uncertainties.

With us today is Mr. Josué Gomes da Silva, CEO of Springs Global, who will comment on the performance of the Company.

Now I would like to hand it over to Mr. Josué.

Mr. Gomes: Thank you very much, good morning to everyone. Alessandra and Roberto Cristofanilli are also here, it's a pleasure to talk to you this morning regarding the earnings result of the first quarter of 2018.

I would like to start commenting on our important growth of our e-commerce sales. We have no doubt that the multi-channel model that was launched and we aligned the interest of all our franchisees to the sales of our electronic channel, and we offer here an opportunity of growth, not only for our retail operations AMMO, that is the business unit South America Retail, but also to all the Company, therefore, the results this year will represent significant growth in e-commerce.

During the first quarter our e-commerce order are above 70% when we compared to the first quarter of last year, and even more important is the acceleration of the number of visits to our site and our sites, and the number of orders that have been



placed in our sites. This is so that in April we had a growth of 200% when we compare to the same period last year. We then accumulated growth January to April 2018 - January to April 2017 there has been a growth of over 100%. We are very excited with our multi-channel model and it has shown to be absolutely practical, easy to operate by all of our franchisees, with significant drops in the end cost when it comes to delivering the products to our end customer and also we are delivering products faster.

And there are other structure models in Brazil. We have all the facilities that a multi-channel can offer, like sales and deliver it at the store, also order and pick in the store. This is the first company that does it throughout the entire franchisee network, and our franchisees make more and so do we, because the reduction of cost in the value chain is enough to allow franchisees to make more with better profitability and we can maintain the same margin, sometimes even higher than when we would sell directly to our consumer. That is so that our expectation regarding the growth of this model is favorable, and then it's consolidating more and more, and I believe that the figures show us this.

In addition to this, we have been able to attract talents that was a certain concern that we had because we were growing so fast, but we have been able to attract talents, young people with experience, with a lot of talent in e-commerce and are significantly contributing to the Company and the speed of growth will be seen, and we also believe that we will fulfill our growth target this year for e-commerce, that is 175% between January - December 2018 comparing to January - December 2017.

This is the most important thing that is happening in the company: digital transformation, and with this, the valuation of our brands and of our product portfolio.

As a matter of fact we have a robust model, the technology that has been developed in-house is extremely strong, it is adaptable, it is easy to hone, and we are on the right path when, for example, our brands are the first brand that appear in a search engine when a consumer searches generic category, it shows that our area of SEO has demonstrated a great technical ability and is improving our site, therefore our site appears first in these searches.

So I believe this is a point of highlight. It still a relatively small percentage of our total sales, but with this level of growth we are already showing a very important level of growth, not only during the first quarter and also during the month of April. We can reassure you that this, as a matter of fact, will be transformational for our brand and for all Springs Global company, especially in South America. And not only our retail area.



Another highlight would be the growth of the EBITDA (around 20%) in the South America Wholesale unit. When we compare 2017 to 2018 (1Q18 versus 1Q17), despite the difficulties of the Argentina unit that is part of this business unit, South America Wholesales, Argentina is a point of concern of the Company.

For you to have an idea, Argentina already represented over 25% not only of sales but also of cash generation of the Wholesales unit of South America, and today represents a much lower percentage and even worse with a trend of deteriorating macroeconomic situation.

Today is a decisive day for Argentina, there is an auction of the Central Bank Bonds and I hope that Argentina quickly reaches macroeconomic stability because it's a very relevant operation for us that has become less relevant during the first quarter, and now with the devaluation of the currency, it's even more irrelevant.

Nevertheless, it is an important market because it has a relevant share of market and we wish the best for the Argentina economy and we hope that they are able to overcome their macroeconomic difficulties and that this will contribute with our results, because currently we have a negative contribution and perhaps today is the Company's point of concern, that is more amongst all our concerns.

Now, regarding the North America Wholesales business unit, although it was disappointing during the first quarter when we compare it to the first quarter of 2017, we are seeing signals of a reverting situation (in April). These signals are connected to 2 factors: One would be an intense internal effort to mitigate the increase of cost of the main raw material that would be polyester, especially recycled polyester that suffered an unexpected impact because of change of the Chinese government policy that low... because now in our case they can no longer buy PET bottles to be recycled and to turn them into fibers.

China is the biggest producer, with the lack of ability to import them, the prices have increased quickly of these raw materials, and there are very important raw materials for our American products, and I believe that this deteriorated the margin of the North American operation. We have also worked, we have done everything to mitigate this increase of cost, reducing costs in other areas and the filling fibers will be at a lower level as other countries began to take over what China used to do and China, because China used to be the greater supplier of recycled fibers.

We believe that sales also will go back to normal in the United States because an important client in the United States already announced that they will place our products on the shelf, like last year (shelf exposition). They started this test in fact



in the last year. This test wasn't only with our products, with our brand. It was a category as a whole. The test appeared to be ineffective because although costs were dropped, it dropped faster than... the sales also drop. This impacted, but this retail will revert the situation, and during this quarter the shelf of this retailer will be full of our products and we believe that sales will present the figures that we had in the past, and we believe that gradually we will improve these results.

Now with the disappointment with the results of the United States and Argentina, that gave us an EBITDA this year equal to last year, if Argentina wouldn't have had the macroeconomic problems that they had, we would have had a much better performance even with the generation of net income at the end. But everything shows us that United States is recovering as of the second quarter, Argentina is still a point of concern and in Brazil we will be able to continue the growth of cash generation although sales in multi-brand in April haven't been highly satisfactory, and I believe that due to the high average temperature when we compare it to the same month last year, I believe that in the center-south was 5 degrees above the temperature last year. But now after the second fortnight of May we believe that temperatures will drop, and we believe that in June temperatures will be much lower, and Mother's Day was reasonable in terms of sales.

These were the initial considerations that I wanted to make, I will give the floor to Alessandra, so she can talk about the quarterly results in each one of the business units and then we will entertain questions.

Mrs. Alessandra Gadelha: Good morning to everyone.

On slide 3 we present the highlights of the first quarter of 2018, were we had a growth of our net revenue gross profit of 3% in addition to the expansion of gross margin. The Ebitda was R\$ 54 million with an Ebitda margin of 10,1%. There was a drop of R\$ 10 million or 24% in financial expenses and there was an improvement of R\$ 5 million in net results year on year. As we mentioned in the past call we started our digital franchise operation in the end of January, with a growth of 71% in e-commerce orders.

On slide 4 we can see the financial performance. Now here we present the results during the last 12 months. From 31 March of 2018, in slide 5, where the main segment, South America Wholesale represented 56% (of sales) and 74% of the Ebitda. We state our guidance, we confirmed there was a consolidated net revenue from R\$ 2,1 to 2.5 billion. During the first quarter the revenue totaled R\$ 529 million, 64% came from South America and 36% came from North America, as you can see on slide 7.



Now the per type of product, bed, table top and bath line was 43%, followed by utility bedding 32%. The Ebitda was R\$ 54 million, a result of R\$ 1 million (reduction). As you can see on slide 8, there is an Ebitda growth on South America offset by the reduction of North America Ebitda.

On slide number 9, here we present the working capital that were R\$ 941 million at the end of the quarter, with a drop of 1% year on year, influenced by the increase with supplier accounts.

On slide 10 here we have the operating cash generation measured by the Ebitda that represented an average growth of 10,5% a year, during the past 5 years. Here we will present the main highlights of the quarter per business unit.

On slide 11 we show that we had an increase of net revenue in South America Wholesale due to greater participation of bedding, table top and bath products with higher value added in our sales mix. Now the Ebitda was R\$ 45 million with a 19% increase when we compare it to the first quarter of last year. There was an Ebitda margin of 13.3% during the first quarter of 2017 to 15.3% in the first quarter of 2018.

On slide 12 we can see growth revenue totaled R\$ 79 million with a gross margin of 27%, both of them are compared here (yoy).

Now when we see South America retail presented on slide 13, the sell-out revenue was approximately 10% higher than the same period of 2017. The net revenue also presented a growth despite the conversions carried out during the 12 months. In January we started our digital franchise operation, and this represented a growth of over 71% of orders through e-commerce.

On slide 14 we can see that there was an expansion of 5% in gross profit and gross margin increased by 0.4 percentage points although there are more franchisees in the sales of the business. At the end of the first quarter we had 229 stores, 70 were own and 159 were franchisees, as you can see on our slide. Despite a challenging economic scenario in Brazil, we increased our Artex stores from... we had 9 franchisee stores in the end of 2016 to 32 franchisee stores in the end of the first quarter of 2018. Regarding Wholesales North America, we increased our revenue in reais positively affected by the exchange rate as you can see on slide 16.

We had an increase in cost regarding that decision of China to drastically reduce the recycled products that affected the supply of polyester in the market and an increase of price. We believe that there will be a gradual adjustment in this offering,



but we are already adopting measures to reduce this impact on our operations.

On slide 17 we can see that the gross revenues totaled R\$ 29 million and the gross margin was 15% with a drop amongst both (yoy).

Now on slide 18 we show the main opportunities for 2018 for Spring Global. First one would be expansion of consumption and sales of our products, increasing the utilization rate of existing plants, we expect to increase sales through e-commerce driven by digital franchise and digital marketing and also through new franchised stores. And this is with new stores. We will use our installed capacity of our plants to dilute fixed costs and we will improve our operational margins. We will continue with the financial deleveraging process with better cash generation from our operations. There will be a reduction of the cost of the debt because there will be a lower interest rate and monetization of non-operational assets.

Thank you very much, we are at your disposal to answer your questions.

Q&A Session

Operator: Ladies and gentlemen, we will initiate our Q&A session for analysts and investors. To pose a question, please press star 1. Questions will be answered in order of placement. If you wish to remove your question from the list, please press star 2.

We repeat again, to pose a question please press *1.

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We bring to an end our Q&A session. I will give the floor to Mr. Josué for final remarks.

Mr. Gomes: Before I thank all of you for your participation, and we are placing ourselves at your disposal if you have any questions and if you would like some clarifications through Alessandra and also through Roberto, we are at your disposal to answer.

I would also like to update you regarding our lease project in Natal that will be inaugurated during the first fortnight of June. Here we have 38.000 square meters that will be leased. We already have 2 signed contracts plus a contract that is ongoing. Commercially speaking it has being already closed and we are very firm to have a monthly revenue through this lease project of R\$ 700,000-750,000 a month, without the outlet.



The outlet will be launched in June or in July (commercialization only), and we are convinced that due to the operational cost that will be very low for the store owners the occupancy will be high, and we believe that the real estate project will materialize itself and will represent a significant market value. And to continue with the development of the real estate project, now it will be more feasible to have a negotiation with someone of the sector because now the value is much clear because we have people that are leasing the stores, unlike the past that it was only assessments.

Now we have a flow of revenue that has been contracted and this were no longer talking about an assessment of the value of this property, and people of course are retrofitting the stores, so for those I have the opportunity to visit Natal, you will drive in front of this real estate project that is called Mega Center Seridó. Seridó is a very important region of the state of Rio Grande do Norte and also was textile fiber, it was a special kind of cotton, was eliminated by pest and it was difficult to fight the pest, but it was the best quality of cotton that we have, very similar to the Egyptian cotton. So this is why we chose this name for this shopping Center that includes not only a shopping center, an outlet and an Assaí supermarket.

I would like to thank everyone for participating in this call and please let's wish for the winter to come closely so we have better results during the second quarter. Textile products depend on season and when we talk about bedding, table top and bath line it's even more important because here we have quilts, we have eiderdowns, we have blankets and with this, these high temperatures around 18°C, people really don't feel the need to buy these products. And well, they buy other textile products like sheets, so now let's wish to have a very rigorous winter so we have excellent sales during the second and third quarter.

We also wish the Argentine government to find balance and to find macroeconomic balance because otherwise we will have problems with Argentina. We have to see the solvency of their public accounts and if the Argentine government will be able to honor its foreign liabilities. Today it is difficult (to the Argentinian crisis to have an impact in Brazil). We have a deficit in current transactions that is zero. We have international reserve 6 times higher of the public debt of the economic sector. We have a surplus and we have foreign investments that are very strong, in addition to a controlled inflation and a reasonable interest rate. Our Copom will probably announce an additional cut, more interest rates, and Argentina as a desperate measure, increased inflation 40%.

These are the points of concern. And of course we maintain very important trade relationship with them. We expect them to improve their macroeconomic situation.



I repeat, Alessandra, Roberto and myself are at your disposal if you have any further questions and have a very good day.

Operator: We are bringing to an end the Springs Global conference call. Have a very good day.