Local Conference Call
Springs Global
First Quarter 2019 Earnings Results
May 20th, 2019

Operator: Ladies and gentlemen, thank you for holding and welcome to the audio conference call of Springs Global to discuss the results of the first quarter 2019.

At this time all participants are in a listen-only mode, after a brief introduction we will have a question-and-answer session and instructions to participate will be given at that time. If you require assistance during this call, please dial *0.

If you would like to download a press release and accounting information as well as the corporate presentation, please go to Springs Global website: www.springs.com/ir.

Before we continue, we have to mention that this presentation contains certain forward-looking statements with respect to Springs Global, including its business operations strategy and conditions, they include descriptions regarding the intent, belief or current expectations of the company and its officers with respect to the results of operations and financial conditions of the company and its subsidiaries. That may cause the actual results of the company to be materially different from any future results expressed or implied in such forward-looking statements.

We have with us Mr. Josué Gomes da Silva, CEO of the company. Please, go ahead, Sir.

Mr. Josué Gomes da Silva: Thank you and good afternoon everyone. I am here with Alessandra Gadelha and others (Roberto Cristofanilli) to talk about the first quarter results, in which basically we already expected the results that we listed in our restatements.

Obviously, the main driver here is the conclusion of our transaction in which we consolidated our operational margins in the North American market through a new company. This has been widely announced to market, and when this was signed, we had an extraordinary notice published on December 29th and also when it concluded in mid-March.

So obviously, we already had some statements and some accounting notes published regarding its results in 2018. So all elements were in line and allowed you to understand what the results for this first quarter would be.

A very important fact that took place last Friday – which only goes to increase our perspectives for results in our 17.5% share at Keeco – is that our main competitor in the United States filed for Chapter 11, what we used to call "judicial recuperations". This happened on Friday, this is a company that belongs to an investment fund and they started their restructuring around 2 months ago and they hired an office, a very active company, which provides Chapter 11 services in the US, and so we already understood that it would file for Chapter 11, and this ended up taking place last Friday.

Naturally, Keeco is a company that is much better diversified and works in different segments, including now a segment for pillows and mattress pads, so we expect sales to grow in North America, and we also expect that services for our clients will be made better.

Keeco is a company that already had a very promising future and now it's become even more promising. Our 17.5% stake in the company is obviously very relevant and it's going to bring us much better results.

It's also important to highlight this quarter the growth in our e-commerce operations, especially – and this must be underscored – with our multi-channel approach, with our only channel presence becoming stronger and stronger. After all, now our e-commerce orders 70% are either picked up at the store or delivered by stores, which serve as distribution centers or mini distribution centers from which our products can be sent, and that reduces the shipping costs as well as the delivery times for our buyers.

And in fact, this discussion on delivery times is becoming more common in e-commerce around the world. In the United States, ~~we know~~ (Walmart has stated) that 24-hour deliveries will no longer have additional fees and (forcing) Amazon ~~is now~~ (to) follow~~ing~~ in that same step, so delivery times are becoming more and more relevant and any network that has a physical presence that can distribute has better conditions to deliver in a shorter amount of time than those companies that need to only base their distributions on services.

We do have a physical network for distribution, we are going to start cutting delivery times in major cities, in cities that are larger, and we think that this will be a competitive edge and will become important for our company, especially since we work with multi-channels.

Now, the technologies for that are all internal, they are all doing very well, we have

Pix and our platform software for online sales, all of it is in the company and integrates with our ERPs, and obviously, you will hear about this if you allow us to participate in Springs Day, which will be on 29th at 8:30 in the morning. We've sent an invitation for everyone in our mailing list, but I would just like to reinforce that invitation because we will focus specifically on this technology area that we have and our multi-channel model, and there are several initiatives there and I will speak about them during Springs Day.

It ended up being very close to our first quarter results being published, so many of the initiatives we have have a lot of potential to generate growth and revenue, but they will be discussed during Springs Day on the 29th, we will all be there so I'd just like to reinforce that invitation to all of you.

But besides this factor, that is the conclusion of Keeco operation and besides our growth in sales online, which was over 150%, we have to highlight that our funding profile is looking healthier today and it's also longer. This is very important because we are still working in several plans and we are convinced that already in the balance of the second quarter you will be seeing other extensions of our funding profile and that will make us feel much better and at ease and will allow our omnichannel services and sales to grow.

It is important to say that when I talk about investments, I'm basically talking about investing in brands and new product categories, which we will talk about on the 29th and much more than industrial Capex because we still have some idleness, meaning that we have some significant operational leverage.

Regarding preliminary information, I'm going to let Alessandra speak about our business units and at the end we will come back to answer any questions you may have. Thank you.

Ms. Alessandra Gadelha: Good afternoon everyone. So I'd just like to highlight on slide 3 our conclusion on the purchase of Keeco, it allows us to access the North American market and this took place this quarter when we got the cash and the equity in the company, and it presents a 17.5% share in its equity ownership.

Our book value gain was 275.1 billion BRL before taxes, there was an absorption of deferred income tax of 80 million BRL and hence we have no cash effect. The combined company has a product portfolio with leading brands in the curtains, utility bedding, decorative bedding markets, as well as a diversified customer portfolio, including major companies in North American traditional retail and e-commerce market.

So this combination will allow our share of the American market to grow, and the idea is to add a relevant company to our product portfolio adding competitiveness, growth potential and higher profitability due to our synergies. At the same time, it will allow us to be more dedicated in our South American business with a more robust signature and portfolio.

So we would like to reinforce the results as discontinued from the fourth quarter of 2018 and the results that we presented will show our continued operations.

Slide 4 shows our financial highlights for the first quarter of 2019, where our net revenues were 340.7 million BRL with a gross margin of 28.6%. Our Ebitda amounted to 316.9 million BRL. Our adjusted Ebitda that is excluding our asset combination results equaled 41.8 million BRL with an adjusted Ebitda margin of 12.3%.

We started adopting the IFRS 16 standards from January 1st, 2019 and that resulted in a negative effect of 2.6 million BRL in the net results for continuing operations. Our net profit came to a total of 159.4 million BRL. In this quarter, we had an increase of the average price for all product categories, as well as a growth of 8% in sell-out revenue from the retail business and a growth of 155% in e-commerce.

Slide 5 shows our consolidated financial performance. So for a comparison, we are presenting the first quarter of 2018 reclassified and reported, that is excluding continuing operations, and these discontinued operations are not news, but their operational cash is included in Ebitda, which extends the company's consolidated Ebitda margin.

So slide 6 shows our financial deleveraging, reaching 1.8 times this quarter, and this was boosted by a reduction in our net debt. So the cash fund to offset the PIS and COFINS taxes recognized in 2018 are being ~~used~~ (approved), so we expect a cash effect from this offsetting to happen in the next quarters.

Slide 7 shows the main use of proceeds from our asset combinations in North America. Its value was US$126 million, 29% is equivalent to the 17.5% ownership in Keeco and 23% was used to pay loans from our discontinued operations, 6% was spent in transaction expenses and 42% was used for a net debt reduction from continuing operations.

Slide 8 shows our highlights for this segment in Brazil wholesale. Its net revenue was 275.7 million BRL, a growth of 4% year on year, it has a higher share of higher value-added products in our sales mix, our Ebitda came to 24 million BRL.

Regarding the Brazil's retail segment presented on slide 9, sellout revenue amounted to 130 million BRL, 8% higher than the first quarter of 2018 while our net revenue grew by 0.2%. So the sellout revenue is growing higher than our net revenue because we are transferring sales to our franchisees through a digital franchise model that we started in 2018 and that led to a growth of 155% in our e-commerce sales.

During this quarter, we opened 3 new franchises and we converted 2 stores from own stores to our franchise. Ebitda amounted to 4 million BRL.

Slide 10 shows the net revenue for the Argentina segment, which reached 31.8 million BRL, a drop of 23% year on year. It was negatively impacted by smaller sales volumes and by a negative cash exchange effect. Ebitda came to 1.4 million BRL.

Slide 11 shows the main opportunities that Springs Global has for 2019. First is to expand its consumption and sales for our products, the recovery of the economy in Brazil and Argentina will leverage our growth in sales in discretionary products, which may have been delayed during the recession. We also expect e-commerce to grow boosted by digital franchises and by our investments in digital marketing, and also through growth in the number of stores with the opening of new franchise stores.

We want to use our installed capacity to reduce physical costs and as a consequence to improve our operational margins. We will continue our deleveraging process through using tax credits to offset taxes and to improve cash generation from operations and also monetizing nonoperational assets.

Finally, slide 12 reiterates our invitation to the Springs Global Day event, which will be held on May 29th in the morning in São Paulo. If you are interested, please confirm your attendance by e-mail, our address is: ri@springs.com.

Thank you very much and we are now open for questions you may have.

<u>Question-and-Answer Session</u>

Operator: Ladies and gentlemen, we will now begin our question-and-answer session for analysts and investors. If you have a question, please dial *1. Questions will be answered as they are received. If at any time you would like to redraw your question from the queue, please dial *2.

Please wait while we collect questions.

Mr. da Silva: We have a question from the webcast about our guidance, if from the first quarter results, and obviously from the macroeconomic situation in Brazil, we will continue to reaffirm that guidance.

Well, in the first quarter we reinforced our plan for the quarter, our budget for the quarter, so it is not a surprise, we already expected a weaker Ebitda margin due to the raw material costs that had been based on previous costs of course, and now raw materials went down, especially from the second quarter, but especially from the third and fourth quarter we expect to have smaller raw material costs and this will be reflected positively on our margins.

We also expect – and again, I don't want to get ahead of myself because this will be discussed during our Springs Day, but – we expect to have higher sales, especially in the second ~~quarter~~ (half). There is a number of initiatives, even in new categories, which are very promising, and they will therefore significantly increase our sales in the second ~~quarter~~ (half). So, again, we'd like to reaffirm our guidance, whether it's for sales or Ebitda.

Of course, the macroeconomic situation is not as good as it was when we decided on the budget, that is November and December last year. The expectations for the economy were more favorable and every company has reassessed its prognosis this year and we are having smaller GDP growth expectation now, so this of course goes against what we expected.

But since we reached the budgeted amount in the first quarter and since we already expected to have a weaker first and second quarter, the results for the second half of the year thanks to the new products, the new categories and the new margins we will have because of raw materials, will be better. We are confident of that, whether it is because of sales or because of the cash generation guidance we had.

Investments should also be within the guidance, of course, the volume is relatively important, as it was in the first quarter because of our new equipment coming in for digital printing, and in fact, this is one of the important initiatives that we will be discussing in detail during the Springs Day.

This piece of equipment is very big, in fact, it is the biggest in the Americas and it reached in the first quarter, it was paid in the first quarter, so our Capex had an effect in regard to the total of the year only in this quarter. But we are still positive about our guidance, whether it is for cash generation or Ebitda, or in fact for the economy in our Brazil and Argentina. They have been short of what we expected, so we think that the market overall was expecting a better economic outlook when we put this together in November and December. We don't think it will go lower and we believe that from now on the comparison will help.

We have to remember that last year we had a truck drivers' strike, which at the end of (May and beginning of) June created a very negative impact, and we had the World Cup, which also got in the way of sales until it was concluded in mid-July.

So obviously, we have to hope that the temperatures that started to be lower this weekend will in fact be lower. April was on average 5°C hotter than the average in the past several decades, and in May the average temperature was also higher. It started to go down now, and of course, if it does go cold, it helps us to sell our products and to reach the guideline much easily.

Operator: Our next question comes from Pedro Ruppenthal, from Benjamin Ruppenthal.

Mr. Ruppenthal: Hi Josué and Alessandra. I have a couple of questions. First, about the expenses in selling the units in the US. So those 30 million used, was some of it listed as an expense in the first quarter of 2019? And I'd also like to understand how online sales work. The Ebitda had a strong affect, it went up to 4 million, and what effect would that have in the second and third quarters?

How much are you expecting? I know that it's difficult to know, but do you think there will be some growth, will it continue to go up? Because it was very strong in this quarter. Will that continue?

My other question is about the São Gonçalo unit. What we are hearing in the press it that's been expended in its production capacity at the Santista unit. Today, the domestic market hasn't been doing very well, so are you doing that for exports, or do you believe that the national market will expand or will any of the players step out of the market? That's all. Thank you.

Mr. da Silva: So, to answer your first question about the transaction cost with Keeco, that was all done at the closing. There is a statement in the press release too and in this webcast that shows very well the sources for that, US$126 million were received and that's a consideration what we took for the assets we sold here.

If you look at that, you will see that 100% of the expenses were paid at the closing, so there are no further expenses, but the contrary, now we are expecting to have dividends and results that will be expressive from our 17.5% stake in Keeco. And obviously, we are trying to reduce it as much as we can, the legacies that the company will bring with its US operations, as I already mentioned during last year's results.

It is important to highlight that at Springs Global US; besides that 17.5% share, we still have some assets and we are working on how we can sell them so that we can even rebuy the legacy obligations and possibly stop them completely.

Now, the results we expected from Keeco will be more than enough to cover for the legacy in terms of accounting results, not necessarily cash.

As a reminder, because of the structure created, Keeco is having its corporate taxes paid by its shareholders in their stakes, so we will continue to use the benefits of the tax loss carryforwards that we have in the US.

Your second question was about e-commerce sales growth. It was significant and it is true that at the end of March and early April, since the weather changed and since consumers started becoming more trustful, we don't have the sales at that 150% level that we mentioned for this quarter, but we believe and we are fully convinced that we will finish the year with 3-digit growth in our digital sales. It might not be 150%, but something between 100 and 150%.

We are very confident in that, and once again, I won't tell all of the details so that everyone can take part in our Springs Day on May 29th, which will be broadcast online. We will try to do it at least; we will see if we can stream it and have the event online so others can take part through the webcast. And it is worth it because there are some numbers of important initiatives that you should hear about and that's why we are convinced our sales will grow by 3 digits online.

But once again, this is not getting in the way at all of our physical stores because an important part – that is around 70% - is either picked up at the store, this is by choice for clients, or it's delivered from a store.

Finally, you had a question about… What was that? Oh, the plant in Natal! All right.

I mentioned in the results of the year – that's one of the reasons why we reconfirmed our guidance and our goals for Ebitda this year – and the reason is that during this second quarter we will have a consolidation of 2 industrial lines, which will allow us to cut costs, so around 70 million BRL (annual basis) will be cut in costs, at least half of that, and a lot of it also in the second half of the year, and this is because we are reducing our operations in Natal and also we are consolidating our Campina Grande activities.

So our manufacturing is being modernized, so these events happening in this second quarter of the year will also have a favorable repercussion for our reduction in industrial costs in the second half of the year, and that will allow us to ensure a more robust Ebitda margin for the second half and we can reaffirm that we will reach the guidance because of that.

So I'm not sure what that means what you read about growth. It's quite the contrary. Actually, our consolidation removes some of the idle capacity that we have, but we still have some idle capacity, so our operational leverage will be different as our direct sales grow.

Operator: Our next question is from João Paulo Reis, form Venture investments. Please, go ahead, Sir.

Mr. Reis: Good afternoon Josué and Alessandra. We are hearing your results, as we often do come, and we just have a question about how the company is organized. We heard that AMMO now controls Coteminas S/A, so we would just like to understand why that was changed.

And from Josué, we'd just like to hear if you think about any major re-organization in the entire group as was mentioned a couple of years ago. Does that still make sense? Just tell us how we can understand these results in the entire group. So that's my question. Thank you.

Mr. da Silva: Thank you Paulo, good afternoon. So, I will start with your first question. So there was a reunion of the entire textile area in one single company. Of course, now we are splitting liquidity between 3 publicly traded companies and this structure was not started with the goal of being permanent structure, it was due to the circumstances.

When we had the acquisition of Springs, it was actually an idea to merge similar companies, so merging Coteminas and Springs Industries in the US, and Springs Global came out of that and it was publicly traded because Springs' shareholders had, as a negotiated right during that merger, registration rights. So they could demand of the company be publicly traded. So that's why the company is.

So it is a structure that was generated out of circumstances, it wasn't planned to be this way, and I believe it's in everyone's interests for it to become a single company, a single structure. But on our side, we don't have any specific efforts in that sense right now, even because we were focusing in other matters, that is the consolidation of our North American operations, with Keeco and so on. And obviously, that's already a lot of work, so the company's focus becomes that and that becomes also our operational target.

Obviously, this is something that needs to be studied, there are investment banks mentioned that often mention that, there are suggested structures (nothing recently), there are suggestions that we should study this topic, and we understand it is relevant, we are willing to do it with all our shareholders, including you who have a very important position in the company.

Now, your second question is easier to answer: it's not really that AMMO controls Coteminas S/A, but it's actually Coteminas controls AMMO. But that's for a simple reason: Coteminas supplies to AMMO, it even supplies at market price, so receivables become mechanisms for funding AMMO activities, which were on the rise and which were still consuming cash. So to avoid costs, and there are tax costs, we decided to increase the capital, so transforming those receivables into capital.

That doesn't change anything from material point of view, both belong 100% to Springs Global, so having one controlling the other doesn't change anything for shareholders of Springs Global, but it's only a way of saving a tax fraction from something that was growing. That's the way we found to do it.

Mr. Reis: Right, and if you tell us a little bit about Mother's Day and how that went.

Mr. da Silva: It wasn't good, we didn't have ~~the funds to invest in it~~ a winter so far, did we? Mother's Day is a relevant date for our industry, but overall not only in our stores, but overall for retail. The second quarter is a disappointment. I don't think it will be a disappointment from now on because the comparison basis will be different, so we will grow. And we are a little bit below our target, but it's nothing that can't be reversed, we are confident, but this year's Mother's Day was not very good, it was in general a weak holiday for the industry, for retail as a whole, and this was heightened by the fact that the weather was much hotter than it usually is.

Mr. Reis: Do you have an expectation for exports with the dollar prices being so high?

Mr. da Silva: Well, it's not this exchange rate; even with other exports are profitable. But of course, we are always careful, we are expanding our exports, but we are being very careful in doing that, even with Keeco operations we have more growth possibilities there. But we are always careful, we don't want to have situations like we had in the past in which 65% of volumes produced in Brazil going to the foreign market.

We think that the macroeconomic volatility in Brazil doesn't allow our company to have such a high percentage of our products being exported.

But we do have favorable expectations, we are growing with some clients that we already had, and we are growing even more with that perspective of being a distributor of our own products and expanding our product lines.

Mr. Reis: Great, thank you.

Operator: Our next question comes from Heloísa Cruz, Stoxos. You may proceed.

Ms. Cruz: Good afternoon, thank you for taking my question. I have 2 questions. First, about your working capital, it was expected that it wouldn’t vary much as the Keeco operation kicked off, but considering the working capital is very hard on the company's returns because it's very big, do you have any expectations to reduce it with this reorganizing that you're doing and with the franchises, or do we have any space to gain their? That's my question.

Second question is: Do you have any idea of what your asset equivalence would have been with Keeco this quarter, or will we only hear about that in the next results?

Mr. da Silva: Heloísa, to be honest, working capital has some potential gains, but it's not significant. Look, it's not a product under process, it's not the main item in the company’s working capital; receivable due dates are more important. Unfortunately, our industry works with receivable on due dates that are long and also finished products inventories were essential because if you were under a certain level of inventory the order to range of a few products depends a lot, it's much lower than ideal, and that reduces your level of service for retail clients.

It's true that with the adoption of an artificial intelligence software, that is a new algorithm that we developed with one of these major American companies, we are having in our own stores in pilots an improvement in inventory of around 30%. If this is confirmed in fact, that is, if we can reduce our inventory by 30% at the sales and through these artificial intelligence software, that gives us much a more assertive sales forecast, we can also improve our capital performance in our chain, with our multibrand clients, with traditional retailers, and that will allow us to improve our working capital because that will mean that we will have shorter payment dates and that will create a huge impact.

But from the proportional point of view, when you look at the American operations, when they were sold and they were much less intensive in working capital, if you compare working capital with sales, this ends up being a harm because in Brazil we still had much more working capital than in North America vis-à-vis sales.

It was basically streamlined to there, it was done per order, you didn't even need any space to store it. Payment deadlines in the US are very short, under 30 days, so the intensity of working capital on the US was much smaller than in Brazil. So obviously, now we no longer consolidate sales even if we have a 17.5% share at the company, so we lost in that indicator.

We need to work with intelligence to improve the indicator in Brazil and maybe the best promise is this artificial intelligence algorithm and machine learning, it is providing good results in pilot tests in our own stores, and if it's really that good, it will provide important capital gains. The consolidation of the 2 (industrial plants) has some impact, but it's relatively small since the main working capital is not inventory~~, but rather~~ in process.

Ms. Cruz: Okay, and regarding Keeco results?

Mr. da Silva: Right, we will see that from the second quarter because, as a reminder, we had 2.5 months of these results, and they only have 15 days. Of course they have their own results for the 3 months, but it closed on March 15th, so 2.5 months are there and are discontinued operation results.

Ms. Cruz: Okay, just one more quick question. Artex segment is moving forward. How are the negotiations doing? Do you have a lot of demand or is it just a coincidence that you had 2 or 3 stores through the last quarter?

Mr. da Silva: Well, if one store is doing very well in retail stores and e-commerce is Artex. It surprisingly strong out of our own brands. Of course, the older brand (Santista) grows more, and they started in August last year, but Artex which was already an e-commerce had relevant growth and it will continue to grow.

I think if you have better sales and more investments in digital marketing, of course, consumers are now going into the digital commerce and they look for multi-brand stores and multi-brand stores prefer Artex. So I think it is a virtual cycle and the demand is higher for Artex.

Ms. Cruz: Thank you.

Operator: As a reminder, if you have questions, please dial *1.

Mr. da Silva: We have a very important question here and this is in fact a very relevant topic; the trade war between the US and China.

In general, all textile products were affected by these tariffs, so now American retail, which imported a lot from China and continues to import a lot of textiles from China even close, will have higher costs. And this connects to João Paulo’s question; it increases the possibility to export. The issue is how much we want to export, because when you have contracts with American retailers, they are often two-year contracts. So it's a big risk to have a contract and then occasionally macroeconomic conditions in Brazil change, things improve in Brazil and the exchange rate starts going up, if our politics improve, these things change fast, we might have a better economy.

Let's not forget, last year we could already see exchange rates of 3.2, 3.4, in fact, people were asking the opposite; how much can companies get as exchange rate goes down? But tariffs will have a huge impact on textiles from China.

China is a huge supplier, even in comparison to other countries, so that is very relevant, and it will mean obviously that prices will go up in the US and due to that they search for other possibilities for their supplies. So there is an opportunity to have more exports, the idea is how much of that opportunity we will make use of.

Again, we are focusing on selling to our clients directly. We have new product categories in order to make our brands more valuable, but this doesn't mean that we can't sell exports. But of course, we need to know how much.

So where this tariff was going, we don't know. No one knows. In fact, many people believe that a bit G-20 meeting in June this trade war will stop; Trump will declare himself victorious, even if he's not necessarily victorious, and put an end to it. But it's very unpredictable. In fact, today we have some news in the Financial Times that the Chinese are getting ready for a long tariff war. So the longer it goes, the more opportunities we have to gain share. But again, we need to be very careful about that.

We believe that our biggest value is in our brands, and it's true that our production structure contributes to add value to our brands in Brazil, but this is our focus, it's not just producing large volumes for exportation.

Operator: As a reminder, if you have a question to ask please dial *1.

Ladies and gentlemen, we do not have any questions, and we would like to return the floor to Mr. Josué for his closing remarks.

Mr. da Silva: Well, just to wrap up, I want only to thank you, but I'd also like to reinforce the invitation to be with us on May 29th for Springs Global Day.

We will have a lot of new things to show you and I believe you will be much more confident about our sales prognosis because it's around 20%, and our cash generation prognosis for this ~~quarter should be higher~~ (year and the following ones).

So thank you very much. Roberto, Alessandro and I are opened if you have any further questions and have a good day.

Operator: With this, we would like to close the audio conference call for Springs Global. Thank you very much.