



**Local Conference Call
Springs Global
Second Quarter 2020 Earnings Results
August 14th, 2020**

Operator: Ladies and gentlemen, thank you for waiting. Welcome to the Springs Global conference call to discuss the earnings of the **Second Quarter of 2020**.

At the moment, all participants are connected on listen-only mode. After a brief introduction, a Q&A session will be conducted, and instructions will be given at that time. Should you need assistance during the conference call, please press star zero (*0) and an operator will assist you. To obtain a copy of the press release for the results, financial statements and presentations of the webcast, please go to the Springs Global website at: www.springs.com/ri.

Before proceeding, we would like to inform that forward-looking statements reflect the management's current perceptions and perspectives on the evolution of the business based on the evolution of the macroeconomic environment, industry conditions, the company's performance and financial results. Any changes in such expectations and factors may imply in results that materially differ from the current expectations and include several risks and uncertainties.

Today with us is Mr. Josué Gomes da Silva, CEO of Springs Global, who will comment on the company's performance.

Now I would like to give the floor to Mr. Josué.

Mr. Josué Gomes da Silva: Good morning. Thank you.

I would like to thank all of you that are participating in this call. I know that this is a day with many announcements of earnings of many companies and, incidentally, most of them are presenting the results at the same time, so it's an honor having you here.

Here Roberto Cristofanilli, Alessandra Gadelha is here as well in different areas because of social distancing, and obviously, all of us will be at your disposal to answer any questions you may have regarding the quarter.

I'm going to make a brief introduction regarding the quarter, I believe that these are points that are important to highlight. And with no further ado, I will go to the Q&A



session because then we will be able to clarify any of your questions.

As this quarter was extremely challenging, the results obviously were way below what we expected, but because of the circumstances, of course, we have to congratulate the entire team, that I have the pleasure to lead, because of the results that they were able to deliver in a quarter where trade closed, the stores, most of our customers throughout the quarter had their stores closed and there was a drop of sale of 19.5%. We believe that this is not something that... but we have here to recognize the effort of everyone in pursuing the objectives of the company.

Of course, this drop was higher in the wholesale segment because all of our customers closed their doors throughout the quarter, and we mitigated a greater drop because there was a significant growth in our direct sales segment. And here we had a 66% growth thanks to the growth of our online sales, that were 8.7 times higher. I believe that this growth is an unprecedented growth in such a challenging quarter. This is a result of what we have been doing, especially in the investments in technology and in the strength of our brands and the competency of our team.

This is why we were able to register, in a quarter like this, with these circumstances, a total growth of our sell-out of 22% approximately, and totaling our quarterly sell-out approximately R\$ 155 (150) million, and there is a mix change between sell-in and sell-out because the trade has been closed, so our omnichannel couldn't be used in this period, and this mix change ... well, AMMO registered a growth of 66% (retail net revenue), so the retail side grew 66% because this is a combination of 22% sell-out (that by itself is already significant) thanks to the Internet, that represents a growth of 8.7 times, and this is combined with greater sell-out, that was higher than what is normal (we had a higher share of sell out in total sales).

Now, obviously, this places an extreme challenge for us. I have spoken to my entire team and I've said that now we have even greater challenges ahead of us. We have raised the bar and we have to find different pathways to grow again 8.7 times. Well, it is very important to recognize that there has been a digitalization of the world throughout the pandemic and, therefore, the foundation now is greater.

Yes, we have felt that as the stores reopen in July, although the total sales are growing – I'm talking about direct sales to the consumer –, there has been a replacement by the sale in the Internet, but the total sales continue growing and the foundation of the Internet sales is very strong. Well, certainly in the third quarter we won't have a growth of 8.7 times, but we will continue growing our Internet sales with one advantage, because the stores are going to be open and continue



selling in this channel because the physical stores provide a differentiated experience to our consumers.

So this significant performance of our direct sales to the consumer mitigated the drop in sales (in the wholesale market). In the wholesale market, that services our main customers that are retailer customers throughout Brazil and unfortunately we weren't able to buy because they were close, we had a slight contribution in this third quarter and this contribution will be higher as of the third quarter, and I am talking about the sales of our PPE line, especially for healthcare professionals.

We observed in our call of the results of the first quarter the authorities requested us to manufacture PPE because Brazil depended in foreign supply chains, so we decided to invest temporarily because we knew that the fabric masks would be temporarily consumed, not permanently, so we adapted our sewing machines to manufacture fabric masks, and we also, yes, carried out a permanent investment with technology with a lot of productivity, and this is a line for PPE, these protection masks, we are talking about type II masks according to the American standards, here we are talking about gowns and other disposable items for the healthcare area. And this has opened a new opportunity for the company and we even have the opportunity to export these products.

The production is 800,000 units daily of these disposable items, the fabric mask we will no longer manufacture them because we knew that this was going to be something temporary, and the sale of bed, bath, table topping products gained momentum in July and August, and this is why we had to anticipate the return of 2 production units that were on layoff to train our employees until the first half of the month of September, and we had to anticipate the return of these 2 units – João Pessoa and Macaíba – in 1 month.

So, as of the month of August, and as of today, our industrial units will operate full-time and, therefore, we had no more space to produce (the fabric masks) with the sewing machines that sewed sheets and towels, we had no more time to produce fabric masks. But, yes, we continue manufacturing PPE, healthcare products.

It is important to highlight that there is ~~a super demand~~ or a super supply because Brazil is open to import because of the pandemic and it forbids to export healthcare products. This is temporary because as soon as the government feels that the market is totally supplied, they will go back to the normal import practices, paying the taxes and there will be freedom to export, and I believe that the prices will balance once again.

Nonetheless, we have never practiced absurd prices, prices that meant 7-8 times



the normal prices. We practiced higher prices because the price of raw material increased, and when the prices rebalance themselves, we will go back to normal. And there is a line that we are constantly investing, and this is a noble product because these services are healthcare workers and these are people that we must value, we must applaud them.

The first highlight of the quarter was the performance of a retail market that continues with good performance, it is very difficult to (reach) the growth that was registered by the second quarter. Now, the second highlight was the introduction and the beginning (although very small) of the lines of personal protection. I believe that the sale during this quarter will reassure the return of the wholesale unit in normal levels. This is what we are seeing when we see the level of purchases of bed, bath, table toping, and together with the individual protection program, will take us back to normal sales level and margins during the third quarter (will be impacted) because over half of the quarter 2 units were closed.

Another thing that has concerned us is the absenteeism because people could not work. Since March 8, when we adopted social distancing measures and all the protection and remote working, on a daily basis we have carried the anamnesis of all of our employees, something short, with basic questions, and in an automated way we have taken the temperature of our employees twice a day, decontamination procedures in the entry and if any person presents a suspect, well, they go back home.

As the pandemic reached the interior of the country, especially regions that hadn't been affected in the beginning, of course, the rate of suspension continued. We believe that the curves of contamination of Brazil will progress and I believe that we will see the peak during the month of August, and as they drop, I believe that absenteeism will go back to normal and so will production. And this is something that we believe that will happen during the last quarter of this year.

So, we believe that the margins during the last quarter will go back to normal. Plants will be fully working during the last quarter, we believe in this today, plants back to normal, with normal absenteeism. And this is our expectation right now.

Now, the sales during the third quarter, well, probably because of the PPEs, will basically go back to normal, but with margins below what is normal because our 2 industrial units had to stop.

So, these are the main points and there is also a highlight regarding working capital, and we are net debt dropped. Of course, with the return of sales and industrial units, there is a trend for this working capital to increase again.



We have had growth in sales, in areas where the need of working capital is lower, like PPE for example. Here we have less working capital need. I believe that there will be a growth of working capital as of this quarter and because of sales, but perhaps it will be not as intense as in the past because we are intensively working in order to maintain a lower working capital, releasing resources and diminishing the cost of financing of the company's activities.

Well, our financing activities are normal, we have received great support from all financial institutions, we have not faced any difficulties, yes, we've had amortizations of shorter maturities and higher costs, but nothing that has meant any type of difficulty for the company's financing.

These were the main highlights regarding the earnings results of the second quarter and prospects regarding the rest of the year.

As a target, we want to grow our sales in 2020 compared to 2019. It won't be a significant growth, but we believe that this is feasible. The drop in sales we believe can be reverted because of the growth in the retail market that will continue during the second semester and the introduction of PPE line, that would be the healthcare line, and with the resumption of sales in the wholesale market, that appeared to be strong, and the bed, bath, table topping segment is not as impacted because people are spending and remaining more at home, they are socializing less and, therefore, households fabrics are important (should have lower sales drop).

I believe that the combination of these factors gives us good expectation, and this is why we want to end the year with sales of similar or slightly above the sales of last year. Well, the margins aren't as good, but now we are going to manage our cash flow, and we expect that during the third quarter with the reduction of absenteeism and the resumption of our business unit and we hope that the pandemic curve is at a low and we hope to go back to the margins of last year.

Well, the last highlight is exchange rate. Well, the exchange rate only increases the strength of our business model because this is a company of consumption products and we work with strong brands and they are totally integrated. Currently, our competitiveness only increases and, of course, even the price of raw material, the margin also impacts us, the exchange rate variation, although our exposure is not big, but the benefit of the exchange rate is greater, it's better for our business model, that (is an fully integrated company, which starts from the textile raw material, cotton and polyester, up to sell) directly to our final consumer.

And now we will go to our Q&A session.



Question-and-Answer Session

Operator: Ladies and gentlemen, we have our Q&A session for analysts and investors. To pose a question, please press star 1. The questions will be answered in order of arrival.

If you wish to remove your question from the list, please press star 2.

To pose a question, please, press star 1.

Mr. Josué Gomes da Silva: We received a question through the webcast regarding the sale of our furniture, it has a nice name, but the pandemic delayed the launching of this item. Yes, it delayed the introduction of Artex mattresses, that are already being sold and they have been highly accepted by the customers that honored us with their purchase, this shows that the brand can extend its skills to other products, household products, actually.

And we perceived a member of complements, like a consumer that said that the only problem with the mattress is that it is more difficult to get out of bed, it is so nice that you just feel like staying in bed. So this pleases us a lot.

Now, our furniture, well, we do not manufacture the furniture, and as our partners wanted to manufacture, the ones that were going to manufacture also closed because of the pandemic, therefore, we delayed the launching and the perspective is perhaps to launch it during the last quarter of this year.

So, I believe that we will not see anything this quarter, perhaps we will see something during the next quarter. Well, unfortunately, this is a delay because of the pandemic.

We have a question regarding the growth of the SG&A and its percentage vis-à-vis the sales. Well, of course, the sale in the retail market it has a higher SG&A than the sale in the wholesale market. Wholesale sales have a lower gross margin and SG&A lower. The retail sale has a higher (gross) margin and SG&A higher, especially the sale through the Internet, where you have 2 different costs, that you add not only the cost of digital marketing, that is properly controlled and it drops as your customer base increases, but also the delivery cost, the freight, the logistic that is slightly higher.

Now, the combination of this, so higher sales, higher direct sales to the consumer, higher sales through the Internet that already have a higher SG&A and a higher



gross margin and, therefore, the figures are impacted, as we saw during the second quarter. Gross margin increased, but the SG&A increased as well. So as you gain a bigger customer base, there are customers that if they have a good purchase experience, they become a permanent customer and the cost with digital marketing drops.

The logistic cost, well, you can improve logistic, but in reality, the logistic cost is high in Brazil and we believe that it will not drop. Now, marketing digital cost drops because you have acquired the customer, you have cheaper instruments to reach the customer and if the customer is satisfied, they become loyal and they go straight to your platform, automatically.

So, this is a trade-off. Actually, there is a growth to the sale to the customer, you increase your gross margin, nonetheless, the operating margin here is even higher than the wholesale margin.

So, I really do not see this increase of the SG&A as a problem, actually. In addition to everything, there is a legacy SG&A in the United States that is impacted by the exchange rate and, unfortunately, the exchange rate contributes in the company SG&A because we have a legacy cost in the United States. I hope I was able to clarify this question.

Now, regarding the technology platforms, there is a question about the evolution of these platforms. I believe that a growth of 8.7 times in sales during the second quarter, well, this demonstrates how assertive we were in our investments, in our platforms, that are proprietary platforms, and we were only to achieve this growth thanks to these platforms.

These are a number of factors, brand, team, but it is also due to the technology platforms that are robust, that are scalable and, therefore, we are highly satisfied with our investment. We are aware of that there are further developments that will help us in the future using the retail platform to broaden the reach of our sales in the wholesale market, therefore, we will be using PIX (it's a business-to-business version) in order to sell and to broaden our sales to the wholesale reaching establishments that can buy our products, and this will be cheaper through our technological platform.

So, we are reassured with our investment. It's not something that was done this quarter, this is an investment that comes from the past. We adopted everything (social selling) in March, (we already had this in our platform) so this is not something new and we already had this in our platforms and the results are here to prove that we were very assertive. What I've read until the moment, I haven't seen



any company that had their sales growing 8.7 times, and this is a result of a proper platform and it's a proprietary platform.

Now, regarding Internet sales, if during the second quarter we sent products through the DC and the stores, when the stores opened, we started sending through the stores. Before, when the stores were closed, well, the lack of safety made us stop doing this and we couldn't use our omnichannel model.

What we did was to compensate our franchisees giving them a percentage of the sale – we didn't have to do this, but we did it to support our franchisees –, and in addition to using social selling so their sales reps could sell through WhatsApp and other tools, we also gave them the possibility to receive (although they weren't selling) a percentage of the sale, a customer that had its tax ID connected to the store.

We distributed millions of Reais to our franchisees through these methodology that supported our franchisees, so we gave them a part of the sale that was done through the e-commerce platform, and this was delivered directly from the distribution center and there was no participation of the franchisee through social selling, but if the customer purchased a product in a physical store, we identified the tax ID of the customer and we gave a percentage to that store.

So we supported our franchisees, not only postponing the payments of our account receivables, but we gave revenue opportunities to offset the fact that you service properly our customers, to be able to have good performance. We had to disconnect the omnichannel, now it's back to normal now with the stores and the distribution centers.

Here we have questions about specific line: the pet line is successful, it will probably remain, it will be broadened with more novelties, and I believe that we were assertive, we did have some questions, but this demonstrated that our brand can work with the pet line and also the Artex mattresses, and we will also have mattresses from other brands and we will also have decoration line and other products that represent a reasonable percentage of our platforms sales.

So, obviously, we are constantly developing products and we are innovative, and all these products are part of this line.

So, today, what about the products that are not manufactured by the company that are like a marketplace in one of our brands? They already represent sales above 15% of the brand, so this is why I believe that this has been a major success, and this demonstrates the strength of our brand, that can be extended to other



categories. So, yes, we will continue investing, we will broaden our categories that are connected to household, and this is for the consumers that trust our brand and they know that they can receive good service or good post-sale service, guarantee of quality, guarantee of return and a good product at a fair price.

I have a question regarding covenants. Well, yes, we do have contracts with financial covenants, not many, these are bilateral contracts and one is capital markets, and we are strictly speaking of them is measured on a yearly basis, not on a quarterly basis, and, yes, we will have to discuss with these very few financial institutions about these covenants.

Of course, it is very difficult to fulfill the financial covenants in the middle of 2020, but what we observe is that the financial institutions are totally open, and they understand the situation. We still haven't carried out any type of negotiation because we wanted to see the performance of the second quarter and a little bit of the third quarter to have a better idea of what we were going to negotiate. But we are talking about banks that are our partners, we have no doubt that it will be possible to negotiate, we will have no problems. I believe that the financial institutions by and large understand that.

If it is negotiations of ~~working capital~~ in capital markets, it's more difficult because you have to call for a general meeting, so no, these are... I see no problem because all of them postponed the maturity of this year for the future, and this shows that they are being our partners. So, I am very reassured regarding this point and I believe that we will have a good negotiation at the right time.

And today, obviously, we haven't broken any covenant and perhaps we won't even need to negotiate. Perhaps we will have good results and there will be no need for negotiating. Although the sales are going back to normal, the margins have been compromised. But you never know what can happen. Brazil is a very dynamic country and the coronavoucher has injected funds in the economy, so depending when and up to what point it will be extended, maybe the results will surprise us positively.

They have a question about a possibility of launching apps. Well, we have an app that was developed, the purchase experience in the app was spectacular, and then we decided to remain within the responsive sites that are adapted to any type of browser for one reason: an app you need a development team for Android and one for iOS and a third team for the browsers.

It's not that we don't know how to do this, but PIX is an app, it's our point-of-sale software and we are giving it special characteristics so that all our wholesale



salesforce can use it so that we can broaden the amount of customers, and this is an app, we chose Android technology because the equipment is more available and it's cheaper. So it is an app.

So, within our technology team, we have app developers that are highly competitive or competent. Now, the consumer normally has mobile phone that has a limit in terms of memory. Now, the app occupies the memory of our consumer, the mobile phones with a lot of memory available are more expensive and when there is a lack of memory, the customer sometimes starts deleting the different apps in their mobile phones and these are the apps that they don't use as often.

Now, one thing as an app of a retailer that offers a number of products in different categories and then the customer like buys 12, 20 times a year. So an app for food delivery, people eat 3 times a day, the order food, sometimes they ask 5 times a week, so it is normal to use this app in a continuous fashion and perhaps the app is in the first screen of the mobile phone. Now, an app of bedding, tabletop and bath where they buy twice a year, well, if this app consumes memory, there are going to delete it.

It's not because of a lack of technology; it's because of an economic decision. Let's say there is not a great need for an app because the customers don't use it very often.

And, yes, we do have an app and we believe that this will be used: that will be Persono technology. This helps people to sleep better. Oh, this is an IOT (Internet of Things) totally developed by the company. I recommend a webcast that was made for the launching and to alert people about sleeping problems, and I believe that this is one of the most important actions that you can adopt to improve your quality of life, your longevity. This is a good webcast, and this is the first step tool.

There is an app developed, there is a graphic interface that is very cool and it is trying to give information to people about their sleep quality because the IOT in our products doesn't only measure, it transmits, after they transmit this information to the mobile phone of the person after they wake up, and, of course, these are algorithm that have been developed internally and this gives us good suggestions to have a better sleep quality.

This is an app, of course, that will be used on a daily basis, and we do believe, and we are developing this app.

Well, the other apps we decided to discontinue them because it costs to maintain the software updated in 3 platforms. We launched new features in our software



every 15 days, and as we had 3 different teams, this increased the cost, and this was unnecessary.

As we introduce new categories, perhaps we will launch apps because we have the team to do with. As I said, PIX is an app, Persono... is powered by Persono (MMartan powered by Person, Artex powered by Persono) and Persono already has its app.

Here they are talking about the drop in margins. There was a drop in margins during the first semester, it is not easy to recover what you've lost because plants were closed, and stores were closed. The third quarter, although the sales are going back to normal levels, the plants are not fully operational. As you know, plants represent high fixed cost, you have lower absorption of fixed costs, so our margins will be impacted. I have no doubt that they will be better than the second quarter, but still impacted.

Well, the fourth quarter we believe that we will have normalized the margins and even with some growth. Perhaps sufficient to revert the loss in margins.

This is our perspective. Well, the exchange rate has increased cost of raw material and, of course, today is not the moment to transfer the increase of cost, we have to... the exchange rate increased 35% vis-à-vis the beginning of the year and we will end this way, but at a first moment, this compresses our margins, but increases our competitiveness. I don't see this as something negative.

We have a new question about PPE for healthcare professionals. Basically, 4 types of products here: here have surgical masks; respirators; gowns; hair and foot protectors all disposable and also sheets, all are made in nonwoven fabric. These nonwoven fabrics are special, and they come from a major supplier that works with state-of-the-art technology and we transform this raw material in these items.

This is the new line of the company; we produce it and we deliver around 800,000 units a day. So, the market is showing signals of (high) supply. There is a decree in Brazil the forbids us to export any type of healthcare product and we can import without taxes, but I believe that the government will be sensitive as the pandemic curve drops, and if the government feels safe that the healthcare area in Brazil is properly supplied, I think things will go back to normal.

These are very important, these are very noble products, for our noble healthcare workers, and this line will become a permanent line. But all of them are manufactured in our industrial line in Blumenau. We chose this industrial line and we invested in this line to produce this type of products.



We have a question about the future growth: Will it be organic, or do we expect potential acquisitions? I believe that currently we have the opportunity of organic growth, which is substantial, and this quarter showed it. You know, the strategy has been clearly outlined and we were implementing everything, and this quarter we have been able to see how assertive we were in this implementation and the capacity that we have to continue implementing.

Well, today we have nothing insight. We will continue investing strongly in the development of technology, in information in order to guarantee our customers that our brands will be an authority in the household segment. And I believe that our customers see this and, of course, they know that they can improve their quality of life provided they have well-being at their places, and they have good quality sleep as well.

I see no further questions, but I would just like to highlight that I am at your disposal, Alessandra is also at your disposal to answer questions that weren't answered here. Sometimes you have questions in different areas, you end up missing a few.

Well, once again, I would like to thank all of you that participated in this earnings conference call. I would like to say that this was a challenging quarter, but important things happened as well. When we see retail sellers with a 50%, 60%, 70% drop and we saw our retail growing 22%, our figure is 66% in the balance but, 22%, well, we can realize that something was done, not only during this quarter; this is an accrual effect of investments and efforts that led to this result, and it is the management and the strategy of this company.

So, thank you very much for participating here, I hope that during the third quarter we are able to show you better results. I strongly believe in sales because we are following up orders, we believe that wholesale sales will be stronger, practically back to normal, especially when we add the PPE line.

I don't think that the margins will go back to normal because half of the quarter we had 2 plants that were closed, they are resuming their activities now and we still have had high absenteeism and we also reduced the number of worked hours, and now this will go back to normal.

So, for some cases, we adopted 936 Act and there has been an increase in cost, but we believe that the margins will improve vis-à-vis the second quarter.

Sales in the wholesale market will improve significantly vis-à-vis the second quarter



and things will go back to normal and maybe above normal levels as of the last quarter. This is our expectation. Our expectation is to sell this year the same as last year or perhaps slightly above and try to recover the lost margins during the third quarter although we do have a number of points that we must take into account.

Thank you once again. I hope to have you with us during the third quarter, and we are at your disposal to answer any additional questions. You can contact me, you can contact Alessandra or Roberto. Thank you very much and have a very good day.

Operator: We are bringing to an end the Springs Global conference call. We would like to thank you for your participation and have a good day.