



**Local Conference Call  
Springs Global  
Third Quarter 2018 Earnings Results  
November 14<sup>th</sup>, 2018**

**Operator:** Ladies and gentlemen, thank you for waiting. You are most welcome to the audioconference call of Springs Global to discuss results of 3Q 2018.

Thank you for standing by. At this time all participants are in a listen-only mode. After a brief presentation, there will be a Q&A session when instructions will be given. If you should require assistance during the call, please press the star key followed by zero. Go to Springs Global website to download the earnings release, financial statements and the webcast presentation: [www.springs.com/ri](http://www.springs.com/ri).

Before going on, I want to inform you that this presentation may contain certain forward-looking statements with respect to Springs Global, including its business operations strategy and conditions. These statements include descriptions regarding the intend for current expectations of Springs Global with respect to the results of operations and financial conditions of the Company and subsidiaries.

Investors are cautioned that such forward-looking statements will be subject to risks and uncertainties, and now with us we have the CEO Mr. Josué Gomes da Silva. Please, go ahead Sir.

**Mr. Josué Gomes:** Well, thank you very much, good morning to all. We are here with you to comment the results of 3Q18 and to go over our guidance for 2018, and we are really very enthusiastic with the progress of our direct sales to consumers and 3Q shows how correct we were in our strategy in the multichannel concept involving all of our franchisees and all of our sales, and this enabled us to grow by 167% in e-commerce in 3Q18 as compared to 3Q 2017, this also enabled total sales growth and sellout in Retail South America by 13%.

Sales go on speeding up and in this month of November we have over 200(%) growth in e-commerce sales, which is excessively high also in our own stores, and we expect to close November with an all-time record of sales and strong growth as compared to last year, and October was a quite reasonable month for e-commerce and our land stores.

We are convinced that our technology is in fact giving total transparency to consumers, and consumers have a unique experience whether they buy in our digital channels or our stores with the development of the Pix software, our own



software, and this leads to growth because the quality of service to consumers improved, the speed of delivery of products also improved, the cost of delivery went down and sales are exceeding and our main brand only enter this software recently, and we are convinced that digital marketing, that brings this significant growth in sales, whether we have a ROI very controlled at digital stores, this also leads to important growth in physical stores and this is what we are witnessing.

The growth in Wholesale South America was important, but obviously was highly impacted by a loss of sales in volumes and mainly when they are translated into real in Argentina. Maybe Argentina is today our main concern in all of our operations, we have taken a very cautious attitude in Argentina and we are trying to reduce production capacity, sell less and protecting our work capital, which is dropping at very low levels by year-end, and with that we are decreasing all of our banking financing that used to finance this work.

And the accounts receivable in our Argentina and Brazilian operation impact of the financing of banking and based on the financing of both operations bring repercussions that do not translate into cash flow but produce an exchange rate fluctuation and we will at least get to year-end in Argentina with a banking contribution less than 20% in dollars when compared to December 31 last year.

And what we will have by the end of the year in 2018 is quiet well-financed in Argentina because this was contracted much earlier due to the strong interest rate in Argentina, and it is controlled because it is in fixed rate in pesos, 24% per year, and there is no point in paying out such a financing since it will represent less than 20% in banking financing in Argentina that we had in the beginning of 2017, and today banking financing in Argentina has reached very, very high levels around 70 to 80% yearly and there is no way we should use it, and therefore cash generation in Argentina is totally directed to this and also an increase in our accounts receivable in our Brazilian operation and vis-à-vis Argentina.

On the other hand, the sales in Argentina have dropped today at one third of what it presented in dollars or real in 2016, this is a strong gain, a result of the exchange devaluation of the peso vis-à-vis the dollar and the loss of purchasing power of the population in Argentina.

No doubt that Argentina is a spectacular country, they will overcome all these are adversities and our footprint in Argentina in terms of shares and very relevant brands and the industrial activity is very modern, with a very modern industrial fleet and as soon as the economy improves, we will be healthy, very strong in order to grow also our share in such an important neighboring country, Argentina, which will no doubt overcome their adversities.



The American operation goes very well, and we have highly positive results of the return of displays in stores, and one of our largest consumers who came at the year-end resume to presenting our pillows vertically not horizontally particularly, and this is really impacting and repercuting in sales, and obviously we had unfortunately during the quarter the impact of a quality problem with a raw material, an input of one of our suppliers, and this caused us to withdraw products from shelves of this retailer, it is a huge volume of product withdrawn and there were costs to the logistics of this withdrawal and the loss of sales when the shelves were not supplied, and also the rework of the products that were removed from shelves and loss of product sales due to quality.

And this product what is cut out from our input supplier, actually they had provided a textile with less elasticity than the standard, and we had the failure in the quality test of this input, but in fact the immediate action of the managers of the American company, which cost approximately US\$2 million of impact in our third quarter margin, and this was the decisive action that preserves at the long-time our image and our reputation and also opens doors to growth in sales including this retailer because we had a very decisive, emphatic action in correcting a quality problem, which was not out of control, but represented a percentage, a high percentage of complains from retailers and we understood that this was, in fact, the most adequate action of withdrawing the product and replacing them despite having an important impact mainly in this quarter.

The gross margin was impacted and the profitability in the quarter in the US. But what we can state and inform you is that this is a nonrecurrent situation and next quarter the results will be much better.

In terms of the costs of raw material, mainly costs, they impacted the cost of raw materials in the system and considering the withdrawal of products and its financial consequences, obviously impacted gross profit in the last quarter, which had a growth in sales of 11% despite the problem in Argentina, and obviously these effects in raw material, first, were mitigated to some extent because prices have gone back in the 4Q, exchange rates also went back with the expectations of the results of the elections here in Brazil, and we expect that the growth margins tend to go back to their high important position and, therefore, the margins will resume to they are growing trend.

And these were my first relevant observations on the highlights of the queue. We are, as we said, very enthusiastic with the results of our model, the results and growth are expressive and the satisfaction of our franchisees, who are now working in total alignment with sales because they participate in sales and in the



delivery and in profitability, which is significant.

So in the last quarter, just to give you an idea, we had approximately 70% of total sales through our electronic platform delivered in stores, whether because the store already transferred (shipped) to the home of consumers the product or they decided to pick it up in some of our stores and this shows that we are going towards our ideal situation with a ~~return~~ around of 90% in total deliveries in our digital platform being carried out through our stores network, and therefore, we understand that we are going steadily towards this.

Now I give the floor to Alessandra to discuss in more details the results of each of the business units, and at the end to we will be here to answer your questions. Thank you.

**Ms. Alessandra:** Good morning to all. Well, we are now sharing the 3Q18 highlights with net revenue of 630 million with 11% higher year-over-year, we had growth ~~profit~~ revenue in all of our deals. In the digital channel, we launched in August the virtual store Santista and e-commerce sales grew by 167% between years, gross profit totaled R\$145 million with growth margin of 23%. Our Ebitda attained R\$66 million with Ebitda margin of 10.6%.

In the quarter we had a nonrecurring cost of approximately US\$2 million, equivalent to R\$8 million, relating to the withdrawal of products in North America. The removal, the withdrawal was done after we realized that there was a specific input problem in one of the suppliers. We replaced all of them and, besides having this nonrecurring cost of the withdrawal being significant and negatively impacting the Company's results in the quarter, we believe that this effect has contributed to the strengthening of our relationship with our customers due to the way we acted in order to solve a quality problem. This can generate new opportunities of growth for us.

We were very delighted to have again 3 of our brands getting the prize (Época) Reclame Aqui, and for the third consecutive year Artex obtained the third-place in this award. (MMartan got the 2<sup>nd</sup> place.) We were 6 times winners of Santista, which once more took the bedding, table and bath category award. We are amongst the 150 companies of best place to work for the third consecutive year. This recognition shows how the company values its workers, which we can see on slide 5.

The positive points that ~~our guidance resulted~~ the guide reported was the high leading ability, the training of workers and the structure program to collect the ideas of our workers and implementation of that ones.



On slide 6 we present the evolution of consolidated performance. On slide 7 we have the results per business segment in LTM on September 30, 2018. South America Wholesale represented 54% of the results and 244 (78%) Ebitda. We were... with the higher average prices and higher participation of aggregated value products with a positive impact on the average prices in the quarter. Ebitda added R\$66 million in 3Q18, as you can see on slide 9, with a better result of the South American Retail unit and the smaller result of North America Wholesale business units.

These 2 units were impacted by nonrecurring events. North America Wholesale was negatively impacted by the withdrawal of products already mentioned, while the South America Retail was all of that impacted due to the credits' recognition due to the improvement of ICMS in the calculation of fees. And due to the nonrecurring impact of the removal of products in the US and the tax ratio in Argentina, we here have the Ebit margins as we showed here on slide. We estimated that the Ebitda 2018 is slightly above the 2017, the actual Capex and Ebitdax didn't have changes.

The operating cash generation net for Ebitda showed that the Ebitda in the last 12 months up to 30th of September 18 added R\$256 million in line... R\$244.6 (million), in line with the previous one.

On slide 12 we share the needs of working capital, which added R\$966 million at quarter-end with the reduction of 0.5% between years influenced by the creation of 56%, the addition of 56% in suppliers' accounts, which ~~was caused by~~ more than offset the increase from the accounts receivable and advances to suppliers.

Now, we will have the main highlights per segment of business. On slide 13 you see that net revenue of South America reached R\$335 (336) million year-over-year, which overcompensated the reduction in sales. Growth profit for Ebitda were in line with 3Q17. Growth margin was 26.4% and Ebitda margin was 15% (15.5%) impacted by the cost of materials between years.

On slide 14 we see that ~~growth~~ gross profit totaled R\$89 million ~~and~~ against R\$90 million in last year's 3Q.

In terms of Retail South America, the sellout revenue was approximately 13% higher than 3Q17. Net revenue totaled ~~58.4~~ (64) million with growth of 8.1% year-over-year. The growth on e-commerce increased by 167%. In Artex chain we converted one own store to franchise and we had 2 new stores. Ebitda was R\$ 10.5 million, positively impacted by the already mentioned recognition of a



recoverable tax credit.

On slide 16 you have the number of Artex franchises, which were increased by 46% year-over-year and with the strategy of growth of sales through new franchises and that digital channel.

On slide 17 we see that we had an expansion of revenue and gross profit between them. Gross margin was 50.1% as compared to 50.9% last year impacted by the increase of participation of franchises in total sales as a business.

In terms of North America Wholesale segment, we had the positive impact of the exchange rate, as we see on slide 18. In this quarter we had a nonrecurring effect from a product withdrawal which we already mentioned. Ebitda totaled R\$7 million with Ebitda margin of 2.8%. Despite a significant increase in revenues, we had a reduction in gross margin and gross profit, as we see on slide 19, impacted by the nonrecurring costs of the withdrawal of products. We are investing in automation of our packaging lines and blow filling products aiming at reducing the cost of manpower and despite the cost of raw material.

Thank you very much, we are ready for your questions.

### **Question-and-answer Session**

**Operator:** Ladies and gentlemen, we will now begin the Q&A session for analysts and investors only. If you have a question, please press the star key followed by the one key, and then we will answer in the order they come in. If at any time you would like to remove yourself from the queue, please press star 2.

Our first question comes from Giovana Scotini, from Eleven Financial.

**Ms. Scotini:** Good morning folks. My first question, I have 2, my first one relates to the revenues with sellout. I imagine that e-commerce impacted this growth and if you could break down with us how this growth came in since in the last 12 months there was no coverage from this source. And the second question is regarding the withdrawal of products in North America, and in terms of raw material, I know that there is a problem, but my question is what can we expect with the remainder from the impact of this cost? And also, I would like to know what you could share with us in terms of learnings in the discussions with the suppliers to solve this quality problem, both at client and at the supplier end.

**Mr. Gomes:** Good morning Giovana, thank you for your questions. Listen, it's difficult today for us to totally separate e-commerce growth only and how much this



growth is impacting the growth of our physical stores, brick-and-mortar, because with our multichannel model is changing, altering sales, but over 70% of sales in our digital platform are delivered by store. They buy at the digital channel and they pick the goods up at the store, and then saving freight and the store is probably close to them, delivered directly at stores is already 70%, and we have no doubt that digital sales also contribute to the growth of brick-and-mortar.

In November, for instance, our expectations through this month is of 33% growth year-over-year. Up to yesterday, I will say that we are within this target, but in general, it is obvious that when you schedule November with a relevant participation of Black Friday the trend is to speed up from now on in absolute figures so that we are able to attain this 33%.

How much of this now is e-commerce and how much is brick-and-mortar? Difficult to separate, despite obviously e-commerce until now November is growing over 20%–200% as compared to last November, but really it is contributing to for a 2-digit growth in their own stores, in the physical stores, brick-and-mortar.

Now, our program and with our franchisees makes it difficult to separate channels. We are trying to deliver our clients, those who buy Artex and MMartan and Moysés have stores, this is also a complete experience that for customers it isn't different in which point-of-sale they are, whether physical or digital. But what will do also is try to take this same concept to the multibrand stores, mainly the smaller stores, not the larger chains, which could adopt our Pix system as being their POS (Point-of-sale) system with many, many advantages we are going to give to those who participate of this sales club, even Santista adopting the Pix platform, which is indeed very strong and interesting as a platform.

So it is difficult to make this separation, but obviously e-commerce grew in the third queue by 167(%), which contributed to the 12.9(%) total, but it's difficult for us today to make a clear separation of what is e-commerce, what is brick-and-mortar sales, even having a figure, one contributes to the other figure and mainly digital marketing also contributes to own stores.

As to the withdrawal replacements of the products, this in the North America, this was totally normalized, operations were totally normalized of this specific product, with this specific retailer and in the third queue already. We do not expect any additional impact, but conversely what we said, what remains of this was an adequate answer from our part in the optics of retailers, they strengthen their relationship with us, and as we see, this opens opportunities for more business in the future.



We are now having an experience at this retailer with a new product with exceptional results from October on, and if they approve this in the products, with a special display at the shelves, then this also reduces greatly the great re-supply of the retailer in the store, on the shelf, and then we will be able to grow strongly next year, and our connection and our force is a 2-digit growth with this retailer for next year.

But in fact, we cannot, by all means, do this. This was an internal mistake of ours, we have to test every batch of inputs so that we are sure that they are in accordance to what we expect. Naturally, this is done within statistics and there was a failure in the test, and we did not realize that the elasticity of what we received was lower than what we specified in the contract, and this brought us problems which could've been avoided had we tested adequately it when we received from the supplier.

This was a human failure naturally, we sped out the process of receiving and naturally this failure will not repeat.

**Ms. Scotini:** Thank you very much Josué.

**Operator:** I would like to remind you that to pose a question you just have to press star one.

**Mr. Gomes:** Well, we now have a question on our building project. Our power center is operating in Natal, the revenues we already contracted between rental and services and we will use the same plot of land for *atacarejo* of food retailer and this will overcome the number of R\$900,000 per month, potentially getting to 1 million when the smaller stores in this power center are rented.

The client portfolio for this power center is very good, excellent quality of names on the Brazilian retail, such as *atacarejo*, and this only values more and adds value to this outlet. We hope we will adopt new a full cost in this place, the retailer will be able to pay a price per square meter including air-conditioning and power, this concept is not used in Brazil, we will use it for the outlets, and we understand that with that the outlet will be able to generate total revenues, totally commercialized naturally, total revenues around R\$1.3-1.5 million per month.

So, this complex, the power center in Natal will generate revenues of R\$2.5 million monthly, which shows the real value of this leasing contract, and this amount already informed the market.

We are very sure of it, and besides, we are also discussing with some of the



constructing firms regarding the residential part of this area, which has great potential, and in this case we will either sell the plot or obviously we are assessing today which is the best model or percentage of VGV that is adequate to the land, because the land has many enhancements and drinking water delivered and sanitation problem also very well sold, and we are expecting to start the residential part of the power center.

This question came through the webcast.

Another question through the website is on cotton prices. Well, for next year we expect for Brazil a huge cotton crops, 2.5 million tons. Brazil will face a good cotton problem to solve, which is the logistics of exports of cotton. All Brazilian cotton has been exported in containers, but even though there is a bottleneck concern which would mean the availability of containers for that end.

Brazil sometimes today has imported containers to be able to export cotton, but with that the probability we don't know, but it's obvious that it depends on the price in New York and also the exchange rate, because cotton is a dollarized commodity, but the probability of the basis, which is the relation of the Brazil price and the New York Stock Exchange, is of being a tackle price that will have some discounts higher than this year, and this is high probability.

And this depends on a possible agreement for commercial relations between ~~Brazil~~ and the US and China for instance. Depending on this agreement, the prices can move up or down. There is not today a prospect of such agreement in the next coming months, it seems that the US will go on pushing this raw up until the agreement is materialized. But depending if the prices... we expect the prices to be in a narrow range and prices in Brazil will become even more competitive because the Brazilian industry is based on cotton and the price of cotton in Brazil will be below the international cotton price.

These are the prospects for cotton. As to polyester, there is, to some extent, a stabilization and a trend of beginning of dropping the price of terephthalic and polyethylene glycol, and if this comes through probably the US operation will positively benefit from this because the blow fill fiber and polyester is very important for them, and the price of oil also helps and perhaps the price of polyester prices will go under the last year's price.

So, I think that both assumptions are positive for the Company's competitiveness and the growth margin results.

**Operator:** Please, I would like to remind you that you just have to press star one to



pose a question.

Ladies and gentlemen, we now close the Q&A session. I would like to invite Mr. Josué to proceed with his closing statements. Please Sir, you have the floor.

**Mr. Gomes:** Well, I will tell you that the strength of our brands and the digital system that we developed with our omni team internally have given us a very significant prospect of growth in Brazil, and we have no doubt that with the economy next year growing to some extent and that clearly seeing the optimism that we already see and with the growth of the economy even higher than we saw today, I that this is in the radar of all the Brazilian economies and I'm fully confident that our sales will increase to consumers directly and our multibrand sales will be significantly higher.

We see progress, important ones in the North American operation with our main clients, and we also see opportunities of gaining share in the United States because being very direct here the quality problem we have, some of the suppliers also have in other products in the same category, they did not reply or respond adequately for their problems, we did it response, and this means an opportunity to grow share in the United States.

And today we are trying to see how we can, so as to say, opened even more production capacity in our factories, in our plants, they do exist, but sometimes we have to make some investments in automation, in packaging and having more space available. We are analyzing this transfer in some production lines to Brazil because here we can do, in a competitive way, simpler patterns and not much variation, and this is ideal for Brazil.

What we see in fact is a huge opportunity being opened in the US, a very strong situation in the American operation for next year, and naturally, we are in the expectation that Argentina will have long last, find a way out of its situation. Stagflation is very difficult, but the major point here is that when operations are in such a low level that ours is today there, comparisons are always easier because we will be comparing with lower margins.

So, the trend is that we would resume growth in Argentina as compared to 18 and very rapidly, and I think that Argentina authorities are being able to bring their economy to normality. I remain convicted of the huge competitiveness of the Brazilian textile industry based on cotton. I'm convinced of that and due to the strength of our cotton production in Brazil and the quality of raw material in Brazil, and the base with our mirror, with our brands and the growth we also expect a robust growth for next year occupying some idle situations bringing more and more



adequate return.

We are very, very optimistic and there is no doubt because the exchange rate fluctuation that happened in 3Q will revert and this negative result will be reverted in 4Q and the Ebitda target we have outlined for this year we will nevertheless be able to have a slightly higher Ebitda than last year, 2017, even with all the interurrences that happened and that were not expected.

We are optimistic, very satisfied with the progress of our brands and direct channels of contact with end-consumers, and consumers recognize this through all these polls, and one of them is the consecutive award we are gaining for the Reclame Aqui of solving problems at the exact moment they come to us, and this strengthens the confidence consumers have in our three brands, and we are very happy that they are on the top of trust with Brazilian consumers.

This is what we had to share with you. I thank you for your attention and we hope to be with you soon to report on the results of 2018 and the prospects for 2019. Thank you very much.

**Operator:** We now close the conference call of Springs Global. Thank you for being with us.