Local Conference Call
Springs Global
Fourth Quarter 2019 Earnings Results
March 31st, 2020

Operator: Ladies and gentlemen, thank you for waiting and welcome to the Springs Global conference call to discuss the earnings results of the fourth quarter 2019 and the year of 2019.

At this moment all participants are in listen only mode. After a brief introduction, we will hold a 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 statement and webcast presentation, please go to Springs Global website that is: www.springs.com/ri. Before proceeding you should be aware 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, the company's performance and financial results.

Changes in such expectations and factors may imply in the results that may materially differ from current expectations and may present risks and uncertainties.

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

Mr. Josué, you have the floor.

Mr. Josué Gomes: Good morning to everyone and thank you very much for participating in this conference call regarding the fiscal year that finished in December 31st of 2019.

Before the moment that the world is facing, I will make further comments on how the company is seeing the situation and what the company is doing regarding this moment. And I will ask Alessandra, our IR Director, she will make a brief presentation of the earnings results of 2019, that although it was yesterday, it seems that it has led to way back in the past due to this event that is progressing on an ongoing basis.

So, Alessandra will make a brief presentation about the results of 2019, of course, we will be at your disposal throughout the Q&A session if you want more details of 2019.

I will try to focus a little bit more on our measures; the measures that we will take regarding COVID-19, what we are seeing in terms of our market, in terms of our customers and what we have been able to see in terms of perspective although this perspective, this future prospective is changing because the scenario is changing every day. But I believe that today we can have greater certainty in terms of what will happen.

So, Alessandra, please, you have the floor. Please make an explanation regarding the results of 2019, and then I will talk about the current situation of the company.

Ms. Alessandra Gadelha: Well, good morning to everyone.

On slide 3, we have the highlights of the year 2019, where we had a net revenue of R$1.4 billion with a gross margin of 31.6%. Now the retail sellout grew 7.4% and this increase was of same-store sales because we increased in 4 units our network of stores and the franchisees.

The e-commerce sales grew 73% and (represented) 17% of the retail sales (in the last quarter). We observe a reduction of costs because of the drop price of cotton (our main raw material), and then we consolidated 2 industrial units that started in July of 2019 that allow us to reach a gross margin that was 35.3% during the last quarter. This is a quarterly record since 2011.

Now the company had R$ 223.6 million free cash flow, positively impacted by the combinations by the North American operation and the reduction of working capital. The cash was to pay the net debt of the company.

On slide 5, we can present the recurring EBITDA in the chart, and it's more visual here in order to facilitate the understanding of recurring value. When we calculate the 2018 recurring EBITDA, we excluded the value of discontinued operation and tax recovery, and the recurring value is R$129.1 million. And for the recurring EBITDA of 2019, we excluded the discontinued operations that include the result of the assets and sale of assets in the United States of the last quarter, and there is a result in a loss of R$14 million (with no cash effect). So we had a recurring EBITDA of R$191.8 million in 2019, a growth of R$62.7 million, and almost 50% is above the recurring value of 2018.

We reduced our net debt to R$230 million in 2019 considering the discontinued operation loans values that were about R$110 million at the end of 2018. In addition to the reduction of the net debt, our objective is to extend the term of payment.

In 2019, we renewed, or we carried out new funding that allowed us to improve the profile of the amortization debt timeline, as you can see on slide 8.

We ended the year of 2019 with our leverage measured over net debt and reported EBITDA of 1.6 times, versus 2.1 times in 2018. PIS and COFINS credits that are R$209 million were enabled and started to be used in the second quarter of 2019. In 2020, we will continue working with the cash effect, we want to reduce our net debt and will reduce the company's leverage.

As a reference, the leverage at the end of 2019 in terms of recurring terms would be 2.8 times, deducting the total amount of tax recovery of the net debt of the company.

Finally, on slide 15, we are presenting the mission of Springs Global, and this ("Innovate to deliver experiences that enchant and promote well-being") We want to make a difference in the life of our customers, our mission is to innovate, to deliver experience that enchant and promote well-being. And as we understand, well-being is a full satisfaction, feeling of comfort and safety and this is impacted by beauty and enchantment through our products and communication channels.

The focus of our growth will be in areas and categories that demand low capital and are scalable, bringing more profitability to our shareholders. We believe that if we broaden the portfolio of products and brands, the distribution channels including greater number of franchisees stores and more technological offering through our retail, like our PIX technology, will be the levers that will allow the company to grow in the upcoming year, where we will have a balance share of retail and wholesale in our revenue.

So, thank you very much and I will give the floor back to Mr. Josué.

Mr. Gomes: Thank you very much, Alessandra.

I believe that the most port and is to talk about what is happening on a daily basis in the company since the second week of March, when we started taking measures regarding the pandemic of COVID-19.

Our first concern (and the greatest concern) was to protect all of our employees. After March 9, we started applying a strong social distancing, not only in our office (where practically 95% of our employees work from their homes), this took a number of days because of infrastructure, because they had to strengthen their infrastructure at home, but since the second week of March, around 95% of our employees from the office are working from their homes, and we are taking very strong measures in order to protect our employees in our industrial units.

We increased the amount of chartered buses to take these employees to work, diminishing the number of people in the buses; we increased the frequency of meals in our restaurants; we also increased the distancing between each one of the employees while they are eating; we have also diminished the amount of people that simultaneously can use the lockers when they change into their uniform; and we also measure the temperature of our employees twice a day.

This is a small anamnesis so we can have an idea if there has been contagious in the family. And with these measures, I am satisfied to say that within the Springs Global Group only in 2 franchises we've had coronavirus that were positive. These are 2 people that had the virus, they are very safe right now, but we have not had any other person infected by coronavirus.

There is a person from the financial area that also tested positive, that is the wife of an employee. But when his wife was reported, he had already been working from home. So after 14 days in home office, I believe that the incubation period has ended, so I believe that nobody else presents symptoms that concern those.

After the concerns that we had with health and the protection of our employees, as I said, we took a number of measures, and I mentioned the main measures, and we have other measures that are being adopted trying to find the best protection practices. We try to maintain all of our plants functioning and we were very fortunate in this action.

In reality, 2 of our industrial units were closed. Because of the local authorities, the unit from La Bamba, in Santiago del Estero, this was closed because of the central Argentina government, a Quarantine Executive Order, where only essential service can be maintained. So since the end of last week, our unit in Argentina has been closed, and in reality, today there has been an extension of this quarantine in Argentina until April 12. So this unit will continue closed until April 12.

And what does this mean? It means that we can't even work in the distribution center and we can't deliver products, because products that have been shipped to customers are in the middle of the highway because the number of barriers that have been created between provinces and cities, therefore, this prevents the products to reach the household of the customers. So this is what happened.

In Santa Catarina, because of a decision of the government (that I believe was difficult to interpret in the first moment), we decided not to close our industrial unit, but subsequently, because of certain anxiety there was created together with our employees, we decided to close this unit until today. I believe that tomorrow we will resume our production in Blumenau, so therefore, our units will be producing fully as of the date of tomorrow, with the exception of the industrial unit of Argentina.

Now naturally, the stores and all our stores (the franchisees or our own stores) had to be closed, and these stores were closed 7 days ago. One store started working yesterday, the store from the South of Minas because the municipality determined that trade operations be open. So this stored in the South of Minas started working yesterday, but basically our store network is closed.

Now, the other measures that we took were to reduce or to eliminate fixed costs in a very important fashion, especially cash costs that are fixed, and we were able to carry out a number of measures that protect our cash flow in this moment where we were able to eliminate fixed costs or to reduce fixed costs or to turn them into variable costs. And here I am talking about inputs contracts, like power, leases and even labor.

We are not laying off anyone and we expect to go through this process without laying off anyone. Now, yes, there will be a reduction of working hours and majorly our employees will go through a training system according to our legislation (already approved for two of our industrial units). So we can also adapt our level of production without laying off anyone because the demand is suffering a very important impact.

Now the March ~~portfolio that suffered~~ purchase orders were strongly, it suffered cuts, we had cancellation and suspension of deliveries, and this is normal because all of our customers had to close their establishments in Brazil, but I believe that the sale drop is lower than what we will see in April. Unless after the second semester, cities enable the resumption of March, so there will be a significant drop of sales in April, and we believe that as of May we will progressively start open stores.

And I believe that we will recover a little bit of the consumption, not like in past levels, but I believe that this drop of demand can be absorbed by these 2 industrial units that are going under training sessions using the layoff law in Brazil.

So all of us understand that our category is a category that generally does not present a very long period of time, so it won't take a long time to consume. It will depend on the drop of the Brazilian GDP and the number of unemployed people and the growth of unemployment, but I believe that slowly the state support measures will be implemented and I believe that basically they will try to maintain jobs, will allow us to resume more quickly all the activities.

Yesterday, I saw a presentation from Bain, we could observe that after studying the impact on the activities of different categories in the retail sectors throughout the world – especially in the Asian countries, where the pandemic started and therefore in part they have been able to overcome the peak moment of contamination, they have already broken the curve and there are very few cases that are emerging –, and our textile segment is in a group of activities where the recovery will be quicker because of demand levels.

Textile products we have clothing here, and regarding bedding tabletop and bath products I believe that we will have even a quicker recovery because people are spending more time at their places, they probably during that period of time until the discovery of the vaccine – and this is the good news, the United States is very confident that they will be able to produce a vaccine that will be able to be produced to millions of people, so as of October or November, the United States is guaranteeing the laboratory that manufactures that vaccine before the second phase of the FDA, so around October the vaccines will be available so that they can avoid a second wave of COVID contamination – and I believe that people will have more normal activities, people will start going out again, people will start going out to crowded places, will be able to go out to sports events, to restaurants.

So in a first moment, I believe that people will probably remain more time at their homes. And what does this mean? That means that they have to invest in bedding tabletop and bath products and textile products for their homes to make their home safer in terms of hygiene and cozier. So the recovery in our segment I believe will follow this curve. This is something that I saw in the seminar yesterday, and we have, as a matter of fact, felt with the Internet a strong growth in demand.

Our sales through the Internet have more than doubled, we already had a significant growth vis-à-vis the last year, we were calculating a growth this year through Internet sales that was very high, and since all our brick-and-mortar stores closed, we have more than doubled our Internet sales.

Of course, we are having promotions through the Internet because we are also helping our franchisees so that our employees in brick-and-mortar stores can maintain a certain level of revenues. So through their customers, they are distributing links and each sale that they can convert in our site, we pay them a commission, be it to our direct employee or be it to our franchisee. And now we are going to start doing the same thing with our multibrand retailers, these are smaller retails so that they can maintain a certain level of income.

The Internet sales are very strong, they are not sufficient in order to offset the drop of sales in the major retail sector, with exception to the food retail service that people are buying above normal levels.

We've seen greater sales in supermarkets, there are stronger sales for our customers from the institutional services, like hospital, and this in a certain way mitigates a little bit, because we are talking about segments that do not represent a great percentage of our sales. Our great customers are the great magazine stores, and until they open their stores, I believe that they are suffering significant sales loss, and also obviously they cannot buy because they can't even stock products.

Now, the month of April will be a very difficult month in terms of sales. We are granting as possible and we are expanding the titles to our customers. Many clients have been impacted, but we believe that as of May when trade reopens although this is going to be with a lot of caution – and it has to do with a great deal of caution to avoid a second wave of contagions – I believe that little by little we will go back to normality.

So our strategic planning today is we are to sell 40% less of what we have calculated during the second semester. If this happens, we will be adapted to the proper production level without a surplus of production, and I believe at these 2 plants we will undergo a training program. If the demand level is lower, we will have to take additional measures.

So our first concern is the total protection of our employees; our second measure is to try to maintain our plants operating normally, and when we ended the temporary activity at 2 units in an organized fashion and training our employees according to the layoff law; third measure, we want to sell the most through our Internet channels, to sell through retailers that are still open and also foster our franchisees sell through social networks or to directed customers, and they can do this through this site.

So this is a summary of the measures that we have been taking. We are calm and we believe that there will be a very deep impact, I believe that the GDP and the global growth will shrink, but we are absolutely convinced that if this doesn't take more than 3 months, I believe that we will end this process of learning more, that will allow us to gain more production and efficiency.

I believe that most of the SG&A activities can be done through teleworking and I believe that the employees have a better quality of life because they avoid traffic and they can have more productivity, and we are seeing the reports and we're seeing their productivity from home, this is working positively. This is one of the learning points that will make us better and more efficient in the future. The same thing with the industrial units.

So this is our future view, and with this final future view knowledge I would like to end my explanation and tell you that all of this perspective is the best interpretation that we have from the current moment.

Now that this changes every day (and I believe that it can also change in the upcoming days), but I believe that after these 3 weeks strongly coexisting with COVID-19 in Brazil, well, I believe that we have a good perspective of the scenario and a number of actions together with other companies that we have exchanged ideas in order to adapt best practices, and this is why we have this prospect.

Thank you very much and we are open to your questions.

Question-and-Answer Session

Operator: Ladies and gentlemen, we will initiate our Q&A session only for analysts and investors.

To pose a question, please, press star 1. The questions will be answered in order of arrival. If you would like to withdraw your question from the list, please, press star 2.

Mr. Gomes: There are questions that we received through the Internet. So it is interesting to give you an explanation. The dollar impact and the impact of commodities' prices for the company.

The dollar, as a matter of fact, although it directly impacts the price of the raw material because these are products that are traded internationally, I believe is not causing an increase of cost because there has been a drop in the price of commodities, especially of oil and the price of polyester and also the price of cotton. The price of the cotton dropped in the New York Exchange, that mitigated the impacts of the exchange price.

Now when we see other inputs of the company, I believe that the drop of demand worldwide when we think about a global recession, although there are some manufacturers that have products that are bought in dollar and want to repass the increase in the dollar to their products, they are negotiating price reductions.

So I believe that, in a nutshell, the dollar was beneficial for the company. Now our exposure in dollar is very small although we have the impact of the dollar variation in our balance sheet and sometimes it is big, and of course, the first quarter it was okay. A considerable part of this variation, the money that we receive from the sale of the operations of the United States was brought to Brazil, and for this and how it is accounted for the dollar exchange variation that was negative in our balance sheet, when the real is depreciated, but it's not cash flow, and it will never be cash flow because this is a liability (with ourselves).

So the exchange rate impacts very little our liability. We don't have a lot of liabilities in dollars (expect with ourselves), the exchange rate increases our competitiveness and it doesn't impact as much because of the drop of the price of commodities in our raw materials. So there is a positive impact, so thermal energy is cheaper, so thermal energy prices are dropping.(because of lower prices for commodities)

So if we were in the international market, we could increase our exports. It it's not a reality today. Today, the market has stopped, the United States is totally stopped, so most of the American retailers have closed their doors, like in Brazil. So we cannot think about exports today, currently.

If we were to assess that after the crisis the markets will resume at former levels or closer to former levels and in Brazil the exchange rate tends to devaluate itself because I do not believe that we will have great inflationary effects with the exchange rate because of the demand effect, and probably during a good period Brazil will not attract more capital. I believe that we will gain competitiveness and we will have an ever-growing volume in exports.

It is not the reality right now. But the exchange rate at the end of the line is a very positive factor for the company in the middle and the long-term, especially if it's not appreciated. I believe that the real will go to a level of 4.50 and we will have lower interest rates in Brazil because perhaps we won't have inflation and with a greater level of the indebtedness of the estate because the state will have to minimize the negative impacts on the economic activities and on the life of the population and those that are more needy during this period.

Another question is about the exchange variation with intergroup companies. And this depends on the resources that were received by Springs Global US, (an subsidiary 100% owned by Sprigs Global Participações), and this is because of the sale of their operations to Keeco. And part of the valuation was received in cash and what was more efficient in terms of tax was a mutual agreement between the companies. This is a long-term agreement and I believe that this will be accrued until the end of the financing period, and once that we have a subsidiary that has a liability in dollar and other subsidiary that has an asset in dollar, but they don't eliminate them, so because one reports in dollars so they do not offset themselves.

Now we also have our Accounts Receivables regarding Argentina. We are financing the Argentine operation selling inputs and raw material and finished products that come from Brazil for Argentina. Now, obviously, Argentina has Accounts Payable. When there is a devaluation, the Brazilian operation registers the Accounts Receivable in dollar and Argentina has also a devaluation of the peso vis-à-vis the real, and there is also a contribution for the exchange variation.

Now regarding the debt that is in dollar, and we saw this on December 31, I believe that good part of our debt was a prepaid liability that was completely settled in the month of January at an exchange rate of 4 point something, so way before the exchange rate reached 5,17. So I believe there will be no impact during the first semester and the exchange exposure of the company has dropped a lot during the first quarter – I am talking about the first day of January just to reassure you –, and dropping on gross debt because this prepayment was done through the settlement using part of an investment in the long-term in dollars.

So our exposures in dollars have dropped a lot, and in thesis, we have some hedge.

The exchange rate today, in the middle and long-term. In the short term, we don't see any effects. Well, there is a diminution in imports of bedding tabletop and bath product imports, (but the penetration of imported products in this category is very low in Brazil.)

(It could open opportunities for exports in the medium and long term.) We believe that our costs will not be affected because the price of commodities have dropped.

And these are basically the questions that we received through the Internet.

Operator: We have a question in our conference from Paula Picado, from Condor.

Ms. Picado: Good morning, thank you for taking my question. You were talking about dollars and commodity, and what about the deleveraging process that you were facing? What is the result that you expect after the lockdown? I'm talking about the month of May. And what measure are you taking, will you be able to roll out the debt? Were you able to rollout your debt before the lockdown? And how do you see the rollout scenario?

Now, regarding the price of cotton, we saw an improvement of the margins because of the drop of the price of the cotton during the fourth quarter of last year. I believe that in January/February… so what would be the impact after the drop of the prices of the raw material?

Mr. Gomes: Thank you, Paula, for your question. Let me start by the second part of your question.

The main factor that contributed to improve the margin wasn't the drop of the price of the raw material during the last quarter. We said that there was going to be a drop of the raw material during the second semester, especially the fourth quarter, but the main factor was the consolidation of that 2 industrial units that we saw in June and the gains are being progressively absorbed by the productivity gains by the units that absorbed the Campina Grande production and the finishing unit in Natal.

We haven't been able to absorb 100% of the gains because we had a ramp-up of efficiency not as good as we expected, you know, training some time is a bit more difficult. But yes, we are attaining the gains from the consolidation of those units more in the fourth quarter than in the third quarter, and of course more in the first quarter than the fourth quarter and so forth.

So regarding the cost of raw material, what we have today is stabilized offering although the raw material price has dropped, but the exchange rate has increased. So we are stable. So we cannot calculate additional gains that come from raw material. We can calculate with the additional gains, but as a result from the continuous absorption of cost reduction of the consolidation of the plants that wasn't totally achieved during the fourth quarter and would probably be achieved in the second quarter this year.

But now, this changes. But I believe that the balance of the third quarter. It's very difficult to make a projection because it depends on the level of demand that we will have.

Now, you can see we are clearly in a dropping curve of net debt / EBITDA. We are using the recurring EBITDA because if we use the company's EBITDA is much less than this. Let's see, the recurrent EBITDA we had 3.8 at the end of last year, and as we are offsetting the tax credit of PIS and COFINS, we were going to 2.8 times, and we are extending in a discrete fashion, but we are extending our financing profile.

This process continued during the first quarter and, obviously, there will be a stop now because of all of this environment of uncertainty that was created by the

COVID-19. Now, yes, we will need, and we are looking for and we are confident that we will attain some additional capital, but this would be some time of safety buffers if by chance we need more working capital during the second quarter because of the extension of the account receivables. This is temporary, even during the first and second quarter.

I believe that this situation will be reverted after the third quarter and we believe that things will start working again. Therefore, there will be a potential drop of the net debt/EBITDA and I believe that the levels will be below 2.5. But I can't say when right now because we have to understand what the effects of the second quarter will be.

But we want a safety buffer and we are looking for this safety buffer for the second quarter temporarily because this is the extension of the Accounts Receivable for our customers. And, of course, all our customers are asking for extensions because of all of them have suddenly interrupted their sales because the trade and stores have been closed.

Ms. Picado: Perfect. Thank you very much.

Operator: We would like to remind you that to pose a question, please, press star 1.

As we have no further questions, I would like to give it back to Mr. Josué for his final comments.

Mr. Gomes: Once again, we would like to thank all of you. I believe this is a totally new moment, unexpected moment for all Brazilians and for the world. And I thank you for participating in our conference call and I would just like to say, you know, stay safe with your families, and I believe that these moments, like my father would say that heard from his grandfather, these are obstacles that make us stronger.

And in Brazil, Brazil will pull out from the situation better, we will be a better society, we will be more supportive, and every day we see a spirit of solidarity, a spirit of union that is a good way to overcome this such unexpected moment and so unpredictable. And this is something that we've been seeing from the beginning of the year since the news of China started appearing, but I believe that Brazil has been feeling the effects in the last 3 weeks.

Thank you very much to everyone and we are totally at your disposal to answer any further question you may have. Thank you very much and good morning to everyone.

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