



**Local Conference Call
Springs Global S/A (SGPS3)
1Q21 Earnings Results
May 14th, 2021**

Operator: Ladies and gentlemen, thank you for waiting. Welcome to the Springs Global conference call to discuss the results of the first quarter of 2021.

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, please press star zero and an operator will assist you. To obtain a copy of the press release for the results, financial statements and presentation of the webcast, please go to the Springs Global website www.springs.com/ri.

Before proceeding, we would like to inform that forward looking statements reflect the management's current perception 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 very much. I would like to thank all of you for participating in our earnings results for the first quarter of 2021. I hope that everybody is doing well with health. Roberto Cristofanilli, and Alessandra Gadelha is here with me, they always participate in our calls. I am going to make brief initial remarks, then I will give the floor to Alessandra Gadelha, that will give you details of the figures of the first quarter vis-à-vis the first quarter of 2020 and then I'll come back to answer questions.

I believe that we had a good first quarter with a considerable growth of almost 46% of gross sales that totaled almost BRL 600 million. This is a record in gross revenue for the first quarter of the year. We have to remember that our business is seasonal, specialty during the second semester that used to be 55% of the total yearly sales, and lately it has been more because of a greater participation of Black Friday and also our Christmas sales, especially in the retail business unit. So, the



almost BRL 600 million of gross sales of the first quarter is a record of the last quarters, and the net revenue that grew 42%.

Even more important was the operating leverage demonstrated by a greater occupancy rate of our industrial units, that not only was able to absorb the significant increase in cost of inputs, raw material, chemical products, not only because of the increase of price of commodities, but because of the exchange rate, and despite this we had a result and an increase of our gross revenue profit of 69% (much higher than the increase of 42% in net revenue) and our margin increased 4.6 percentage points quarter on quarter.

And the sales of the retail increased 35%, and this demonstrates that they were materialized without expanding most, and we had better margins than the quarter last year. The gross margin in retail evolved 4.6 percentage points and the EBITDA margin has improved because of the control of fixed costs and SG&A.

We ended with a significant growth of our operating result. In reality there is no indicator, because we had an operating result in the first quarter that was negative and then it came positive, and this demonstrates the operating leverage capacity that we have as sales increase, as we occupy our industrial units. And I believe that we will have this scenario during the second quarter because the base of comparison will be low, we had a second quarter in 2020 with the plants closed, with sales and wholesale dropping 40%, and we have a favorable expectation regarding the results of the second quarter of 2021 compared to the same period last year, and I believe that we will reach our sales guidance for the year.

We're enthusiasm with the progress in a number of fronts, especially in retail. Therefore, we will have the opportunity to see this, and obviously we are reassured regarding the company's direction in terms of the quality of our products, the strength of our brands, that drive this considerable success in wholesale.

We would like to highlight the evolution of our commercial center in Rio Grande do Norte. We have evolved a lot to increase our revenue significantly. The outlet resumed its activities and I believe that this outlet will consolidate itself in the beginning of 2022, when it opens a plan that has 11,000 square meters. Before this we will see how we use the effluent treatment center, that we believe will provide us revenues on services and leasings at competitive prices to the community.

And also an important novelty that should consolidate itself in the upcoming weeks, it is a partnership with one of the most important construction companies in Brazil to launch a residential block in Seridó complex. This is a plot of land of almost 900



thousand square meters that we occupy around 400 square meters, and there is a space to launch residencies, and I believe that in brief we will sign a protocol, a memorandum of understanding with one of the most respected developers in Brazil. And here we have a financial barter deal, we will have 2,500 residential units, which increases the price of the plot in the commercial area.

These are the novelties, we see 2021, although we have been very careful with the health of our employees, of our families and customers, and unfortunately we have seen a second wave that was very strong in Brazil, but the satisfaction behaviour of our customers although the stores were closed, it was different, we have a robust portfolio that during the second quarter will allow us to produce and to build strongly, especially when we compare it to the second quarter of last year. And amazingly because of a need, we have tools that we made available since March of 2020 for remotes sales, because of the closed stores that weren't really used during 2020, and now we can see that they are strongly used. And our franchises, although they have been closed because of the health restriction, well, the franchises could maintain the level of sales because during this quarter the online tools were used.

So, digital is a partner of the brick-and-mortar stores, and this only tends to improve with time, with the habit, with people learning how to use this tools that was internally developed. One of our victories is that we have a robust platform, highly resilient of internet sales, and also of point of sales control that is PIX. In addition to this we are currently close to the Olympics, where we have the satisfaction of being a sponsor of the Brazilian Olympic Committee, and all the Brazilian athletes are using the Persono technology to assess the quality of the sleep, and this is an important brand, because this is a brand that wants to give the Brazilian population and the population of the world. It has quality, we want to provide better sleep quality, and many times people don't realize the quality of their sleep and how this affects health.

Well, these are my remarks and I will give the floor to Alessandra Gadelha, and I will come back to answer the questions that you may pose.

Mrs. Alessandra Gadelha: Good morning to everyone.

During the first quarter we had a strong growth of our revenue in wholesale and retail as you can see on slide number 4. Despite the worsening of the pandemic and the increase of restrictions in a number of cities of the country, and reducing opening hours, we didn't have the same behavior of the customer during this quarter like during the ~~second~~ first quarter of 2020, in the beginning of the pandemic, when orders were cancelled and sales were suspended because of the



uncertainty, due to the learning curve of the past 12 months with a trend of strong demand in the reopening of the retail and remote sales or through digital means, reducing the volatility of sales during the closing of trade.

On slide 5 here we can see that our profitability during this quarter was above the pre pandemic level because of the high occupation of our industrial plants, which provided more absorption of production fixed costs, and also on the growth of the retail through digital sales, and also the expansion of categories that are scalable and that require less working capital, as you can see on slide 6, providing more profitability.

On slide 8 we see the highlights of the consolidated results of the first quarter of 2021, when we recorded a growth of 69% of gross profit and free cash generation of BRL 21.8 million for the continuous reduction of the gross debt of the company. And then, in detail, I will talk about the components of the result.

As we can see on slide 9, the net revenue totaled BRL 430 million, this is an increase of 42% between years, although there was a restriction of stores opened in cities.

On slide 10 you can see the increase of material prices because of the devaluation of real, and this was partially offset by the maintenance of the high level of occupation of our industrial plants.

The EBITDA totaled BRL 54.7 million during the first quarter in recurrent terms, the EBITDA margin of 12.7% as you can see on slide 11. Now the EBITDA in the past 12 months, ending in March 31st totaled BRL 175.9 million, showing the strong recovery of the operating cash of the Company. During the second quarter of 2021 we will register a more significant growth of the LTM EBITDA value because the amount that will be replaced is low, BRL 8.9 million, because of the shutdown of the industrial plans during the second quarter of 2020.

Now we have the wholesale performance on page 12, where we register a revenue of BRL 326 million, a growth of 45% year on year, a gross margin of 32% and EBITDA margin of 15.3%, both with expansion year on year.

On slide 13 we can see the retail performance, where the sell-out revenue totaled BRL 176 million, this is a growth of 26% year on year. We were able to mitigate the impact of the closing of brick-and-mortar stores through digital sales and through the sale, through our virtual stores and many of these sales were done through brick-and-mortar stores, and this shows how advantageous omnichannel is. E-commerce revenue represented 40% of the sell-out revenue, and was three times



the value that we obtained in the first quarter of 2020. The net revenue was BRL 104 million, an increase of 35% between years, with a gross margin of 52% and an EBITDA margin of 27%, both with expansion amongst them.

We are at your disposal to answer any questions that you may have.

Question and Answer Session

Operator: Ladies and gentlemen, we will initiate our Q&A session for analysts and investors. In order to pose a question, please press star one. All questions will be answered in order of arrival. If you wish to withdraw your question from the queue, please press star 2.

Mr. Josué Gomes da Silva: Here we have a question from our webcast about the residential units.

We are honing the speed of this project, nonetheless our partner, and we are ready to sign a memorandum of understanding, that has deep knowledge of the market, understands that the potential during a first stage would be 2,500 residential units, and within a percentage of financial, it's being more standard of the market for this type of undertaking could generate around BRL 80 million in liquidity throughout the period when we launch these units.

The quicker, the quicker we will receive this cash, and even more important, in my opinion, is the greater valuation of the commercial undertaking, because the residential undertaking, in order to get there, it is totally protected by walls with a lot of safety, security with excellent infrastructure, and to go in, because it has an independent main gate, you have to go through the surrounding of the commercial undertaking, so it gives the commercial undertaking more exposure and it has a facade of 700 meters that connects this area to the International Airport, and we also have another front of almost 500 meters to an internal avenue inside our plot, that has access to the residential area, and the people that live in this compound will be able to see all the commercial area on both sides of the avenue. So, we believe that these values are commercial area, because people that live in the residential area tend to use more services, stores, entertainment of this shopping mall.

So, the first stage has a calculation - I believe - that an average percentage of this type of financial exchange or swap, so when these units are sold, we will have the right to 80 million, but this will be launched in six different plant stages. You first



create a first block, you launch, sale and so forth, so we would have this receivable, an even more important, we would have the population valuating the shopping mall, and the shopping mall helps to accelerate the sales of these residential units.

We are happy because this partner is of great quality and this encourages us. And we believe that this development is going to be very successful, and we believe that with time, that with patience we were able to find the proper partner, that is thrilled, and I'm absolutely sure that this development will be a success, as the shopping mall is a success. Well, our yearly revenues now are BRL 11 million a year, and these revenues will increase with the contract of lease. And services from our station of affluents we will have an increase of BRL 20 million, and with the commercialization of the outlet we will have BRL 30 million additional, and there's still more potential of occupation.

We have to remind you that the commercial is an investment property subject to sale, but for the time being it is generating revenues for the Company, and the residential units will be sold and we participate in the profit, and we received this as a financial swap. We will have financial swaps or exchange, we will not assume any type of responsibility in the building, in the commercialization sale or in the financial side, because generally Caixa Econômica is the one that provides the mortgage. But we believe that we will provide a great quality of life to the inhabitants of the northern area of Natal. We are giving them a closed condominium, a closed gated community with quality, and with important urban equipment, here we have schools, hospitals, we have an important diagnosis center, so therefore we are very reassured with this.

Now the strategy to reduce the net debt. In addition to the ~~drop of~~ free cash generation that grows with the operating leverage, we have a liquidity event that is selling our share of the North American unit. And this is practically 30% of the net debt of the company, so this is an event, it's not an operational event and non-recurrent, but which can diminish the net debt.

In addition to this, as we mentioned the residential development, although we are not going to sell the shopping mall, the residential unit, can also diminish our net debt. And this is very clear, but now will depend on how rapid these units are launched. Our margin increased and here we have a compliment regarding the margin of the first quarter, despite the increase of raw material, it increased because the operating leverage. The textile industry leveled its levels itself from up. The fixed costs are high, when you reach the right occupancy rate, the margins increase. It continues being a challenge in terms of inflation.



Today we have an inflation in commodities and it even dropped in the last two days, but it went from a very high level. We are in the binary cotton market, and hedging strategies now are more difficult to carry out depending on binary events, some happen, some don't happen. One is climatic event, and the other one is China, because of this fight with Australia will lead them to buy cotton from the US. These cotton stocks in China are not sure, are unsure, sometimes they buy, sometimes they sell. So, we are in a delicate period because we don't recommend to have any hedge right now, it is important to maintain a level of exposure that is lower, but long-term hedges are very dangerous due to the binary effects that can give you a higher range in the price of cotton, but these two binary events will take place in the next two months, we have to be patient, we have to wait for this to blow away. And if the cotton maintains itself at the same level, we will be reassured that the margins will continue.

During the second quarter the margins of the retail are better than the retail of the second quarter last year. We are growing specially in retail. In wholesale we will have a weak comparison base. And we grew 8.7 times our retail during the second quarter of 2020 vis-à-vis 2019. The comparison base was high and there was a margin sacrifice, and I believe that this year we are growing at much modest numbers, 8.7% times in the internet, but without sacrificing our margin, which is important.

And our brick-and-mortar stores have good performance, and even when the brick-and-mortar stores were closed they presented a significantly different result than what we saw last year. Last year the brick-and-mortar stores suffered, although we provided a great deal of tools. By the way, these tools are being used now, these tools were available since March last year and because of culture, suspicion, lack of training, or because people were in shock with the pandemic, with the lock down, people still really didn't know what to do, so they didn't use these tools fully. During the second wave we've seen that these tools are being used even with the closed stores, and we have seen a growth when we compare it to the results of last year. So, we see a growth in the retail market during the second quarter, of course lower than the growth of the second quarter, and a sound growth because we're not compromising our margins. The gross margins will be better... they will be better than what we saw during the second quarter last year.

Now, regarding the wholesale competitive environment. What I see today is obvious, we had a demand that was a double demand, a demand that would add itself. Practically all our customers (small, big customers) during September and a short time ago, they were buying practically twice, they were buying what they were selling because there were good sales, and they were buying to replace the inventories that ended during the second and the third quarter. This double



demand generates a buildup of orders, and now we're managing this. Today we can see that there is no longer a double demand, today we have a replenishment demand. This doesn't mean that there has been a drop in sales, but it is no longer the same, it's not the same volume, and in some segments it is natural to sell certain products...

Our towels segment is a bit weaker, this is natural because right now it's winter and this is a period where we sell less towels, we generally sell more towels during the summer. Our order portfolio is good, we are managing it properly, we see practically imports inexisting, our industry is very competitive, so all the Brazilian commodities are more competitive, and the volume of exports has increased because the prices have increased. We see soy bean, corn, iron ore, cotton, at prices that we hadn't seen for a long time.

With this we have a positive trade balance, there is an exchange rate valuation, they believe that we can have a 4.50 valuation. As an intrapreneur I don't want to have a devaluated exchange rate of 5.80, but 5 is very attractive for the industry, which makes the industry highly competitive. Let's see where it balances, if it stops at 5.25, 5.26. I see no problem in this exchange rate, this is sounder than 5.80 and 5.90. For the industry 5 is better than 4.50, let's see what happens. With this exchange rate we haven't had a lot of imports, what hasn't increased has been our exports, is it takes longer to open markets, specially together with the international retailers. This takes a little bit more, but the Brazilian (textile) industry can export with no problems with this exchange rate.

I was reading here a number of questions from our webcast, and here you have all the points here, that were raised... it could be towards our results call

Operator: Ladies and gentlemen, to pose a question please press star one.

Sr. Josué Gomes da Silva: There is another question if the slowdown of the wholesale sales means of loss in margin.

As I said, we have a strong order portfolio. We are working in order to deal with this order portfolio, so, the comparison base regarding our results during the second quarter and third quarter are weak, the second quarter, very weak. So, I can only see significant improvements of the result, as Alessandra already highlighted, at the end of the second quarter an at the end of the third quarter. Our greatest challenge will be the last quarter of the year, the comparison base is stronger because we will have an EBITDA result, but we will have a three-digit growth, and we will have a growth of three digits (during the second quarter), and we will have two-digit growth during the third quarter, and during the fourth quarter certainly it



will not be three-digits, perhaps two digits. We will do everything to do this, but we must be ambitious and modestly ambitious, because last quarter last year our plants were full.

What I can see with these ever-going margins and the increase of sales is a retail operation. We have to remember that there are a number of levers that allow us to have stronger retail. We have the leading brands in our segment, and according to the EBIT our brands are so strong that our e-commerce platforms represent around 25% of the total sales of 'cameba', this is easy to prove. What is very important when you see the total sales of 'cameba' in the Internet even in the marketplace: Santista, MMartan, Artex online stores and we have an internet share of 25%, this accounts for the sale of our brands, the brands that are leaders and have been awarded in a number of publications and websites that show our relationship and the credibility that we have with our consumers.

The second pillar is the capacity to develop products that is something very particular of us, we are better integrating a retail operation with the industry. Our digital stamping is providing us results with capsule collections that are very assertive, because digital stamping allows us to produce minimum batches which no additional cost associated. We can experiment products, we can have more assertive launchings, less markdowns and more innovation. With this, customers buy more technology, continues being a very strong pillar of the company. We've developed our own technology since 2017 and it has shown to be robust, resilient, able to grow, offering the most modern things, like infinite shelves. Since the beginning it was digital, it was already omnichannel, it emerged customer-centric to provide the same purchase experience to our end consumer in the physical end and the digital channel. It's a spectacular technology that is PIX, which is robust and resilient.

In addition to this, we are very careful with our consumer health, investing in Persono, it's not only a brand, it's an ecosystem to provide our consumers the best quality of lives, the best health, and the best sleep quality through apps, that with available technology that measures the quality of sleep in a noninvasive way and not expensive, instead of buying expensive equipment. There is no friction because it comes inside our pillows and the pillow can level the quality of sleep and gives guidance on how to improve the quality of sleep, that is Persono, and we have expanded a category that has proven to be aligned with our platforms. The consumers like our platforms, they trust our platforms, they like our services and they buy other categories that are not manufactured by the company and that grow. And we are investing less than what is possible in these categories because of the level and speed of sales of these categories.



We are very cautious because we are still learning how to work with them, but we have to remember that this broadens our market seven times, so, the potential of growth of the retail is major, and the customer lifetime value will drop, customer lifetime value vis-à-vis the cost of customer acquisition will improve, new categories will bring you more recurrency, bring more sales in our sites, and this will drop the fixed cost, the fixed cost of our DC.

The sales of MMartan, we already delivered 25% in 24 hours and we're giving attention to the state where we have the MMartan DC, we have three DCs in Brazil, strategically located, one in the south, one in the southeast and one in the northeast. And with the investments of last year we will turn our logistic operation in an operation that is more competitive and which is faster for our customers.

We no longer have the fever of purchase because of the Corona Voucher, or because the retailers bought twice to replenish their inventories and to maintain their shelves supplied because they had a high speed of sales, and we are reassured that the second quarter, well, we will had an EBITDA of more than 200 million, we will grow during the last quarter EBITDA materializing our guidance that has already been announced, but this is a challenge. We have the challenge of growth during the last quarter.

I don't know if there are any more questions, but I would like to thank all of you for participating in our call. We are at your disposal if you wish to obtain more information. Alessandra Gadelha can help you and I hope to see you in brief to announce the results of the second quarter with better news, and I wish everybody a good day, a good weekend. Take care and take your vaccine as soon as your age group is vaccinated.

Operator: We will bring to the end the Springs Global conference call. Thank you very much to everyone and have a good day.