



Smiles Conference Call – 2Q20 July 29, 2020

Operator:

Good morning, ladies and gentlemen. Welcome to Smiles' teleconference to discuss the results for the 2Q20.

Immediately after the Company's presentation, we are starting our Q&A session. To get in line for the Q&A session, please, dial *1. In case any of you need any assistance during the conference, please, ask for the support of an operator by dialing &0.

We would like to inform that some of the information herein contained includes future expectations of the Company. They are subject to known and unknown risks and uncertainties, which may lead to different results.

Here we have with us Mr. André Fehlauer, CEO, Hugo Assunção, CFO, and Mrs. Maria Laura Pessoa, Head of IR.

Please, Mr. André, proceed with your presentation.

André Fehlauer:

Good morning, everyone. I would like to thank you all for your presence to another Smiles earnings release. This one refers to the 2Q20. I would like to give you some highlights, and then we move on to the Q&A session.

We will start our presentation with slide number one. There are some aspects I would like to discuss with you. First of all, it is needless to say, you have all followed this, you have followed what the challenges of our industry are. And of course, we have our fidelity and a lot of different factors regarding COVID. The quarter had a peak. We had a peak of the pandemic, and that was the most difficult part for us. It really affected our business, especially in April. But some interesting things happened as well.

Whenever we look at our business, we have to think that it is related to travel. But we always had a platform that goes beyond air tickets. And this has demonstrated to be very resilient in this pandemic process for the 2Q. We had an increase of 68.8% in our transactions. And here, you can see the Smiles Shopping with the smart place, including Magazine Luiza, Fast Shop, and other retailers in Brazil.

There was a significant growth in terms of product redemption. People who had more difficulty to organize their travels ended up choosing to redeem from this smart shop. Thanks for the home office, such as computers, to give an upgrade also in household appliances, anything you can think of was redeemed. We have increased significantly throughout the quarter. And so this platform was very resilient and had a robust activity for the quarter.

An important characteristic of our business and Smiles is a very robust cash generator. In this quarter, despite the pandemic and all of the difficulties, we generated R\$328.4 million of cash flow. This demonstrates how strong our business is, along with banks and physical persons. We count on the trust of our clients and attract miles. We have interesting proposal values, which led to this significant cash flow.

As I mentioned, we had a 95% growth in the quarter in the end of March and also in April, May and June. But we also had tickets cancellations, which peaked in March and April, and of course we had



to return payments. But tickets issuance has resumed significantly. And I will talk about it in the end of this presentation. And so, we have been monitoring the domestic market with our main partner, which is GOL.

Of course, our gross billings were much lower than usual and banks and other clients in the beginning of the pandemic. We talked to the clients about promotions. Clients were unsure about the travels that they would have or not. And that affected our billing.

But whenever we analyze the lowest, which was in April, we still had some growth, demonstrating once again that clients have resumed their travel plans. And of course, we had important invoicing factors. We have had less issuances, and also mile accrual by GOL and other partners. Of course, during this period, people traveled less and therefore, there was less mile accrual.

An important aspect, if you look on the left side of the screen, when we talk about our revenue, we have something which is a bit different. Whenever we talk about air travel cancellation, we have to think about volumes. We had significant growth.

And of course, we still grow in terms of the number of clients and we reached 17.7 million clients in our client base. And what we see is that these numbers have resumed when we talk about July, finally. And then finally, but not less important, we have factors, which were very important, proved to be very important, including our lean structure and the number of employees.

And because we are a digital company, we were able to operate the business really well in home office. We have been in the home office for 4 months and the business has operated quite productively. We have used this home office model. It has been successful. And I would like to highlight that having a lean structure during a time of crisis is very good. We did not have to let go any employee. We are working, generating innovation, investing in technology. And we will continue working so that whenever the pandemic is over, we will resume, and we will be even stronger than our competitors.

Moving on, I will talk about the initiatives for the quarter and I will show you some slides. It is important to reinforce our co-branded credit card. We issued this card using three banks: Banco do Brasil, Bradesco and Santander. We say that it is more than a card, it is a way to travel. We have transformed the activities. And whenever you combine these cards to Smiles, you have the best conversion rate per USD spent. You can get up to 4 miles per USD spent.

We know that this product is extremely good in terms of fidelity with the air company. Also, it provides access to VIP rooms, and people automatically consume using their cards and then the miles fall into their account. They do not have to transfer any miles. And we can see by means of data and information that the compliance and adhesion rate is much higher whenever people have these cards.

We today have this card, which is very important for our results. We started using this card with the GOL brand. And at our Smiles website, the search for these cards has increased fourfold. Along with our partners Banco do Brasil and Bradesco, we were also able to negotiate some fees and promotions, and this has led to a very interesting demand, especially due to the first annuity being free.

Within this ecosystem, you can see that this year, we will place this product in our sales channel using GOL's website. And of course, GOL has a very large client volume, 3x higher than ours. And so whenever people buy their tickets from GOL, having access to this kind of product will be very good and we will be able to transform it into a winning channel.

Moving on to slide four, we have another important aspect whenever we talk about other products that Smile has to offer in its platform. We have had a partnership with Shell. It has been very



productive. And during the pandemic, people have started looking at other products. And the fact that we have this available in our portfolio was very interesting.

Along with Shell, we tried to increase or improve the proposal. And then in the month of June, we were able to have a volume of redemption which was 3x higher. We had a record of miles redeemed. And it was clear to us that the fact that we have this portfolio very well-developed makes a lot of difference. And people are considering how they can move on to other things. We have this volume of products to offer.

Moving on to slide five, we have to show people how miles work. We play a role in the market. We have to show people how we work, how we can work. And we have this channel, this 'Te Levo de Milhas', which has more than 7 million views with published videos. We explain how it works. And it is important to mix entertainment with learning. This initiative was very successful, and we will keep at it because it has provided wonderful results to the brand and to Smiles.

Moving on to slide number six, we had a very important initiative, which has to do with our commitment with our society. And by using our programs called Milhas do Bem, we donated 10 million miles. We invited our clients to participate. They could donate miles. For every mile donated by a client, we donated another mile. With that, we generated 6 million donated within our Milhas do Bem program. This is a benefit. A lot of companies had to discontinue their activities. And therefore, this was very productive. And I would like to congratulate all of the other institutions and Smiles, and of course, thank all of our clients who participated with us in this mile donation program.

Now I am going to talk a little bit about numbers, and I will get into details. I will talk about our gross billings. When we compare it to the same quarter last year, we had an expressive decrease. But in face of what we are going through in the market, we have to take into account that, first of all, partner airlines, including GOL, had less miles accrual. And we also had lower activities than we were used to having. And furthermore, whenever air tickets prices are a little bit lower, we tend to have a concentration of tickets being purchased using 100% of their miles.

We had initiatives of GOL branding, which were already going on. We have suffered less in this area. This is a characteristic of the type of client which is attracted to this kind of product. Our more loyal clients are very resilient. And as I mentioned before, we had difficulties with miles transfers from banks. Clients were a little bit more anxious.

But moving on to the next slide, the good news is that we have gradually recovered our revenues since April. So when you compare the gross revenue between April and June in the quarter, we had an increase of almost 50%. And the same thing is true with a higher level even in terms of mile accrual, with an 89.5% increase.

These numbers are very reassuring, and help us understand that client trust in our business model have made a difference for us. Smiles is a solid company with an interesting proposal value, and that makes people to transfer their miles to us. And we also have other tools, and I will later explain how these miles can be used.

Moving on to the next slide. And our gross revenue on the negative side, we had a much lower volume of tickets issued. We also had an effect of tickets cancellations. And then on the other hand, we had some gains in terms of product redemption from our Smiles programs and the Shell program that led to positive aspects. But of course, it was not able to compensate the losses we had in our main segment, which is the air segment. And therefore, we had a decrease of 67% from the first quarter to the 2Q.

And moving on, you can see the number of transactions we had in our traveler universe or Universo do Viajante. People used transactions at Shopping miles. And we had an increase of 68.8%. And of



course, we are talking about the Shopping Smiles, as I mentioned in the beginning of my presentation.

In the next slide, this is a very important slide. And I would like to show you that we have the red bar with cancellations. In April, this was very low, but we had a constant growth. And when we look at the right side of the bars on the day-to-day in June, there was an increase in issuance and a decrease in cancellations. This was even more intense or this recovery was even more intense. And it is nice to see that clients do want to travel, and they want to do it soon.

We had a survey with our clients and the question was, "What did you miss the most during the pandemic?" And 98% of them said that traveling was what they missed the most. And what we can see now in the recovery, we have had a resumption of domestic travel. Of course, for obvious reasons, traveling abroad has remained low.

Our redemption margin was 37%. We had a 10-point increase. We can see some important aspects here. Since last year, we had a strategy of price recovery based on miles. We were more rational in terms of bonuses. And we also had an important effect on the products we have to use. We also have effects of tickets cancellations and the shopping. And you can see the difference in the 2Q.

Moving on to this next slide, we had a loss of R\$400,000. We have an accrued profit of almost R\$56 million on the year-to-date. We believe that the worst is gone, is in the past. You can see the income and revenue and expense decrease. We were able to face this extremely challenging quarter for the Company. Of course, we are not happy with this result and we want to have positive results in the next quarters.

So we had a loss of R\$400,000 in this quarter. And as I mentioned in the beginning, I would like to highlight that the growth of our deferred revenue when we compare this year with last year, we can see that we have a higher mile accrual. We also have some price gain whenever we sell the miles to other partners. And so here, we can see a guarantee revenue for the future by ticket redemption. But here, we can see the deferred revenue as a whole, both in terms of redemption and breakage. This is a different business. You can see the results. And these are things that will happen in the future as soon as the market is going again.

I am now going to pause a little bit. This time, we decided that it would be important to share information, reminding you that these results have not been audited. But we are confident in them and that is why we are sharing them. This shows you that our business is resilient and can recover in July.

In slide 17, we show this recovery with five main indicators, which are very important, five main demand indicators. The first one shows the volume of sessions in our website, when people are once again accessing our website to buy tickets, to see what the promotions are. And when I compare our EBITDA to last year, you can see that I have about 55% of what I had last year. So when we compare this against July, we had a 37% increase. And now, looking at this year, we had 28 p.p., which is equivalent to 63% of what I operated in July 2019.

This shows us, interestingly enough, that clients are looking for us. We have clients who are flying GOL, who are using it for the first time. And also, we have the mile performance and website searches of people who want to register with Smiles.

Talking about the overall redemption, when I compare July with the same period last year, I am operating with 46% of what I had last year. And we had a recovery from the previous quarter of 33 p.p. When I analyze the revenue of mile redemptions, this is the most expressive, actually. People have come to us. They are once again redeeming their tickets. I closed the quarter, when I compare with 2019, with equivalent of 13% of what I had last year. And now, in the first 25 days of July, I have about 46% of what I had last year. This is an expressive growth of 33 p.p.



And then finally here on the top, we talk about tickets issued. We did not include the title here, but we had a significant growth and I am already operating with 57% of what I had in 2019. And we went from 22% to 57%, which represents 35 p.p. And whenever we talk about what we have in July, we have to take into account our activities with GOL and discounts that were offered. We have a significant demand increase and here our percentage of promotional tickets for the next 3 years has already had an impact here in terms of demand increase.

Smiles main business is to guarantee a value proposal to our clients. They join Smiles because they see value in it. They can travel with our partners, especially with GOL. And as I can guarantee value proposal with guarantee to our consumers, I can guarantee a continuation of our business. And when we look at June here, we can see the results that are very encouraging.

We had a lot of questions about how things would go with COVID and the second wave, and market opening, and the flights seat offers at a national and international level. But we are very hopeful that if perhaps the market does not go back to what it was in the short term, we will be able to generate market by strengthening our ecosystem and Smiles, and by means of our partner, GOL.

We launched last week a partnership with Air Europa. We have had good results here in Argentina. And whenever we talk about ticket sales, it is important to keep in mind that you can reserve products now to buy later. But we have seen changes. A lot of people are issuing tickets for the end of the year, for the beginning of next year, and even to later periods in 2021. This tool facilitates planning by clients, and this is a differential whenever they decide where they are going to send their miles to.

In terms of our presentation, these were my main slides. And now I would like to open for Q&A. I am available to answer any questions you may have. And once again, I thank you for your attention. I thank you for being here, listening to our earnings conference, and I am available to answer any questions you may have.

Lucas Barbosa, Morgan Stanley:

Good morning. Thank you for answering my questions. I have two questions actually. The first one is about breakage. I would like to understand what your breakage dynamic was like in July, and whether you can see any improvements for the next quarters. What is your perspective? Thank you very much.

André Fehlauer:

Good morning, Lucas. Thank you for your question. I think we had a very different period when we consider the breakage, not only for expired miles, but also in terms of our policies to facilitate thanks to our clients, so that our clients could fly. We had clients with tickets that were issued and then canceled. We established more flexible policies, provided bonuses with different dates. But there is a clear impact on the volume of issuances and billing, which was lower. I think that, in fact, this quarter was very atypical.

And what we have done in terms of our ticket cancellations and relationship with clients, we believe that this will be normalized throughout the year. I do not see long-term effects. We will be able to balance these breakage volumes.

Lucas Barbosa:

I have a second question. How do you see competition? We know that your main competitor is facing difficulties. And I would like to know whether that affects our price vacation or bonuses?



André Fehlauer:

We have monitored our competitiveness on a constant basis. And we compare it to the main competitors in the market. In a recent negotiation we had with GOL, this discussion was one of the main things we discussed to improve our competitiveness.

And this is something that we could clearly see. We have become very competitive, not only when compared to our main competitors, but also when compared to other mileage programs. And we are now harvesting the results of what we did.

We are the only independent company, with focus on innovation, technology, client experience. All of that help us to continue evolving, to make us stronger than our competitors when the crisis is over.

We will work strongly to offer value proposals to our clients, including Smiles. Smiles was the first one in the market here and it is definitely a more complete one. It is easy to issue, also paying for boarding fees using miles. There are many benefits. And we have things that will be introduced this year and next year that will increase the value proposal to our clients in terms of our fidelity program. So we want to step up, especially when we talk about shopping.

Lucas Barbosa:

Thank you, Lucas.

Felipe de Souza, Mirae:

Good morning. Thank you for the call. My question focuses on the operation with GOL. I would like to highlight that there is a discount in the market. But I wanted to understand how the leadership of the Company can better explain the advantages of the agreement made with GOL. There was a very strong movement that will lead to expressive issuances to GOL. And even though there are different advantages listed when this operation was announced, the Company so far has not been able to evaluate or price relevant aspects, including the co-branded card. I wanted to understand what the difficulty is to evaluate these advantages. And thank you for the opportunity to ask a question.

André Fehlauer:

Thank you for your question. According to our leadership, the benefits of the transaction are clear, they are expressive benefits. But we can always get into details. That was an important aspect that you mentioned. The value of our business and the capacity we have to attract client is very important. And it has to do with the ability to buy tickets with exclusive prices that are discounted from our partner GOL. If GOL is strong, that will make me strong as well.

In addition to that, all of the businesses I have with other airlines, including American Airlines with which we closed the recent agreement and other companies, this all has to do with a good relationship we have with GOL. These airlines need to distribute their passengers in Brazil. And therefore, we come in with a frequent flyer.

We offer tickets at competitive prices to our clients. And at the end of the day, that has to do with the ability to send miles to us, generate redemption with a virtuous cycle in terms of fidelity. My business is to sell online air tickets.

To do that, I have to offer interesting business proposals. We already have a contract with GOL. In this negotiation, we have a package, which was created from the very beginning with historically 15 contracts. This was just another one. The idea of this new contract is that in addition to pay the



remaining balance we have, we have also some business operations. We give 11% discount over the conventional fee, also in terms of tickets issuance, and there was a relevant and guaranteed percentage of promotional fees.

I do not know whether you know it or not, but our contract with GOL allows it to offer promotions. And that will be significant, leading to competitiveness, and will allow us to attract clients, including co-branding. And this gives us a rate of 8.8% per year in terms of strengthening our business.

We also have other benefits. When we look at the boarding fee, actually of Smiles, we were pioneering allowing our clients to use their miles to pay for the boarding fee. In GOL, 100% of those who buy tickets do not have to pay the boarding fee. They can redeem their miles to do that. We are certain that that will lead to revenue to the Company.

Regarding the co-branded card, this was presented during my presentation. This is an important product for us. And it will be included in GOL's client experience, the sales of the product, sales using card. And this will happen in a very interesting manner. And today, when we look at GOL's website, we can see that it is 3x higher than Smiles and we know that this is going to be a winning strategy.

And then finally, the Smiles Club, we closed a contract until 2032. Of course, this was all agreed upon with GOL and we will be able to explore a very important product to us.

We understand that the three other items will lead to good results. We understand that when we look at the first two transactions we had, we have a very interesting and significant return to strengthen our ecosystem.

We are very confident about the way this was done, the governance structure and the benefits that we can already see to Smiles today. I am sure that over the next quarters and years, we will be able to have very good results from this agreement with GOL, our main partner.

Felipe de Souza:

I would like to know if after the call, we could talk about this in detail. I still wanted to understand how we can price all of these opportunities that are not described. I understand that the R\$85 million that you mentioned as a result of the business advantages, they only refer to two of the five advantages you mentioned, in addition to the CDI recovery. Could we talk about it later? Because I cannot really understand it.

André Fehlauer:

Of course, we are available to talk about it. These are strategies of the Company, and we can discuss this model with you. Perhaps we could show you how our model works, how we buy GOL tickets, how we redeem tickets, and how that affects other products I have such as bank miles. Our team is available to talk to you and explain whatever you may need. I would like to reinforce though that of all the contracts we had thus far, this has an important innovation which are the commercial benefits. We want to offer a value proposal to our clients.

That is where everything happens. Bank mile transfers and other things will happen. And this is something that should be made clear here. And this is unprecedented. We can, in fact, address this. I do not know whether you remember it or not, but last year, we had a process which was very difficult with Avianca's process. We had difficulties last year to address value proposals.

How can I show the client that there is a value in here? We have our promotional fees. And as of this year, we have the standard fee as well. And I would like to highlight here that the promotional fee allows us to consume all of the balance we have with GOL, and that will not harm our transfer



price in the future. We have flights that GOL can offer me. I have used tickets without having to impact my future transfer.

Felipe de Souza:

OK. Thank you very much.

Victor Mizusaki, Bradesco:

Good morning. I missed the beginning of the call, but I have a question. The first one, when we look at your figures for July and you talked about redemption, could you tell us a little bit about this redemption profile? Perhaps at the end of the year, there will be a stronger flight activity.

And then, the next question has to do with the direct redemption margin. We can see that in the results for the 2Q there are also the benefits from the agreements established with GOL. So what can we expect for the future? What would be a sustainable redemption margin, at the same time you keep the program's competitiveness?

André Fehlauer:

It is a pleasure to talk to you. I thank you for your question. Whenever we talk about July's recovery, we should talk about the effects of the pandemic. We have to take into account how long before traveling clients will buy their tickets. It is usually about 45 days for domestic travel, and for international travel, 90 to 120 days. This is more or less the standard.

But what we realized with the pandemic was that we had a lot of cancellations, and the profile we had for the last quarter was concentrations. For GOL, it was greater than 60 days, and for our other partners, our international partners, it was much higher, 70 to 80 days. We have people who will travel also in the very short-term.

I am getting close to normal now, to our normal history. And the same thing is true for our partners. We have a lot of tickets issued for the end of the year, for the beginning of next year.

So to answer your question, since you talked about domestic and international travel, clearly what we have seen is a recovery in domestic flights for GOL. The sales of international travel, even though it has been increasing, it takes place at a much lower rate when compared to our domestic market. We expect to have a faster recovery for GOL than for our international partners.

Regarding the margin, for the first and 2Q, we suffered from the effects of the pandemic in March and then later. And that led to variations in our margin. In the first quarter, it was 26% and now 37%.

So we can already see some effects in the balance of what I have. We have the tickets that are offered for a lower price. We have to take into account the cancellations, shopping redemption and other factors. I do not want to get into an in-depth discussion about this, but we have something midway between the 1Q and 2Q.

Victor Mizusaki:

Thank you very much.

Operator:

The Q&A session is now over. Questions submitted via webcast will be answered by the IR team. And I will now turn over to Mr. André for final considerations of the Company.



André Fehlauer:

I would like to thank you all for your presence in our call, for the questions, the very good questions actually, and I am available to discuss with you.

My final message is that we have, without any doubt, undergone the worst quarter in the Company's history. It was very difficult. It tested the limitations and resilience of our business model.

We did very well in terms of cost discipline, business management, product management, client experience, margins. Despite the whole crisis, we were able to generate a robust cash. That reinforces our business model and we were also able to keep our lean structure and produce a lot of innovations in terms of client experience, data indicators. That led to very good results with the negotiation with GOL.

There are a lot of good things to offer our clients. The market is showing that there is a recovery and I think that we will be well prepared, and probably better prepared than our competitors for when the market activities are resumed. Our clients will be able to use their miles, start traveling again. We have a smarts club, co-branded card. We, in fact, want to step-up in terms of what people are used to have in terms of frequent flyer programs. We want to strengthen our digital activities, our website. And our clients can rest assured that we will really step up the client experience.

I would like to thank you all. Stay safe. Take care of your families. I hope that everyone is doing well. And we have to play our role to overcome this pandemic as soon as possible, this sad period we have gone through in the world. Protect yourselves, protect your families, and let us hope for everything to be in the past so that we can have a more normal life. I thank you all very much. Have a great week. And in the third quarter, we will continue working hard to improve our figures even more. Thank you very much.

Operator:

Smiles teleconference is now over. We thank you all for your participation and have a great day.

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