



## Smiles Conference Call – 3Q20 October 28, 2020

### **Operator:**

Good morning, ladies and gentlemen, and thank you for holding. Welcome to Smiles' earnings call to discuss the results for the 3Q20.

After the Company's presentation, we will begin the questions and answer session. If you would like to ask a question, please dial \*1. Should you require any assistance during the call, you can request the help of an operator by dialing \*0.

We would like to inform you that some of the information in this earnings call might refer to predictions or future expectations. These information are subject to known and unknown risks and uncertainties, which may make these expectations not come to pass or to be substantially different from what was expected.

We have with us today Mr. André Fehlauer, CEO. Mr. Hugo Reis de Assumpção, CFO, and Mr. Ricardo Rosanova Garcia, Head of Investor Relations.

Please, Mr. André, you may proceed.

### **André Fehlauer:**

Good morning, everyone, and welcome to our earnings call for the 3Q20 for Smiles. It is a pleasure to have you here. Thank you for listening. We are going to start with a presentation, and then we will go into the Q&A session.

On slide number one, we have the highlights for the 3Q20, and I would like to mention some of them. First, our total cash generation of R\$219.5 million from July to September. It was R\$992 million from January to September. So as you can see, our business has a strong cash generation and we have performed it consistently. The semester was not different.

Another important point was that we had a 40% increase in gross billings when we compared July to September, to the previous quarter, and it closed at R\$1.4 billion. Our net revenue also grew by nearly 140% between July and September, and our net profit was R\$50.2 million this quarter as well. Our gross margin was 84.2%. We had 20.1 billion earned miles and nearly 17 billion miles were redeemed. So this is a sign of a strong recovery versus the 2Q. And we finished the quarter with 17.9 million clients in the Company.

To continue, we are going to be talking a bit about these initiatives and products that we have and our commitment with our clients. And we have some important things to share. Throughout the quarter, we had great campaigns and we have two dates here that are proprietary. One was Orange Week in July, and the other one is Clube Smile's Day in September. These are very important dates where we concentrate our promotional efforts in the media, and they really bring a lot of results.

Orange Week had deals in all products, especially flights, but also earning and selling. And Clube Smiles is being done for the third time. This is a specific date, but actually it lasts for an entire week. The idea is to reinforce with Clube Smiles clients, our most loyal clients, all of the benefits they have. So we reserved the best deals for them for this period, from earning miles to redeeming flights, which is the most important product.



And we had a great result with that. We were able to grow, especially with Smiles Day, 15x the acquisition for Clube Smiles. And in five days, we issued 74,000 GOL flights, which is an important fact given the pandemic.

But when we talk about campaigns throughout the pandemic, our goal has always been to be close to our partners, whether they are travel partners or especially banks, so that we can continue offering support so that they can also overcome the pandemic.

Redirecting credit card expenses is very important, and Smiles is a great tool that can do that with its clients. So we are very close to banks, and we increased in 30% the number of promotional campaigns this quarter, and that also reflects the results that we got with direct offers for each client. With the support of our partners, we were able to have strong work throughout this quarter.

With the next slide, we see that we also had some highlights with our partner air carriers. American Airlines entered in February and it is now the biggest airline partner, except for GOL. It is the biggest international partner, though. We have been seeing that they have had a strong performance in redeeming miles, and even in the pandemic, this is providing great opportunities as travel restrictions reduce.

We also have new releases with Air Europa and Avianca, and Ethiopian is also a new release. So we now have 57 partner air carriers reaching 1,600 around the world. As I said, travel restrictions are going down, and we have a great portfolio of destinations and flights for our clients.

Here we also discuss our branded card, GOL Smiles credit card. We issued it with three partners, Banco do Brasil, Bradesco and Santander, and it has many benefits, like the VIP rooms, luggage, preboarding, and their expenses become miles after the bills are paid. So this conversion is much better.

Now it is combined with Smiles and it has a very strong sales strategy with banks. And we even sell it through our own website. So we had a growth of 22.7% in revenue this quarter, and a growth of 19% of our base and 25% in credit cards sold.

So this was a very important strategy for us, and we can see that with the products portfolio throughout the pandemic that had a much lower reduction in expenses than other cards. So we can see that client loyalty is really providing resilience for our business. They were able to remain in a difficult moment like the pandemic, so we were very excited with these results. And what we see is that these products will continue to be a great point for the relationship we have with our clients.

Next slide talks a bit about loyalty and engagement. We have two launches that reinforce the Company's purpose to engage and have loyalty with our clients. One is Minha Smiles, which is a page where you have all of your information: your category, how much has been earned, your Clube Smiles status, any kind of information you need to understand your account is there.

It is great because it allows you to manage what you have in terms of benefits when you are a Clube Smiles or Smiles client. Clients have been giving us very good feedback on that page.

And besides that, we also have Meu Bônus VIP Clube, which allows clients to choose the deals they use. So they have a bonus that they get every six months, and they can choose when to use it. The idea is to make clients lives easier, remove friction and really make the program a part of their lives in a very relaxed way. Each transaction and each contact that they have with us will bring them closer to their trip.

So we are repositioning the brand, understanding our DNA, and this has led us to our new brand position, which is "Smiles, Living the World Starts Here". You will start to see that our



communications will be much different. It will be new in that way, bringing this closer to clients who dream of traveling.

So all of Smiles' clients dream of traveling, and we want to bring them closer to that dream. So "Living the World Starts Here" is our new tag line, and we are starting to see this in our communications. In everything we do, this will be our new position.

When we look at our employees, I think it is also important to highlight the fact that we had the Great Place to Work survey and we were ranked sixth for the first time as the best company to work. This had never happened in Smiles, so it is great to see that even in a tougher year with a pandemic, we have this level of engagement with our employees. So we are among the best ten companies to work, and we continue to work strongly to attract talent and to attract people who really believe in our purpose, which is to transform people through travel.

And an important thing here is that we have a very lean structure. We have 148 employees, but they really do make a difference with a lot of motivation. So this is very representative of the confidence that our employees have with our Company, and that really fills us with pride.

And now I am going to give the floor to Assunção, our CFO, who is going to talk about our numbers, and I will be here during the Q&A session. Once again, thank you for being here in our earnings call, and we will talk soon, during the Q&A session. Thank you once again.

#### **Hugo Reis de Assumpção:**

Thank you, André. Good morning, everyone. This is the earnings call for the 3Q20, and now we are going to be talking about the main financial highlights that reflect the recovery that André summarized that we had in the 3Q.

Looking at slide number nine, we have the cash generation for this quarter and the accrued figures for the 9M. This year, we reported R\$219.5 million, and over R\$992 million from January to September. This figure was 33% lower than the 2Q, and this is due to the terms for receivables in 45 days.

We are still seeing the 45 days before the pandemic in the 2Q figures, and the 3Q did not absorb the recovery that André mentioned yet. However, the Company continues to demonstrate that one of its main qualities is its ability to generate cash, even in adverse scenarios.

Slide number ten shows our deferred revenue evolution. It increased slightly this quarter, but it had a 42% increase over one year, and it shows the potential generation of results for future years. When we compare this to September 2019, we see that it did not grow because of the travel restrictions caused by the pandemic, which made many of our clients postpone redeeming miles because of it.

The next slide shows our net revenue, which reached R\$133.8 million in the 3Q versus R\$56.6 million in the 2Q. This shows the advance in the number of flights booked from July to September this year. In comparison to the same period in 2019, this reduction is a direct effect of the travel restrictions caused by the pandemic.

The next slide shows our gross profit and gross margins. Our margins recovered this quarter, and this is related to increased revenue, as I mentioned before, because there was a reduction in operational costs of 25% versus the 2Q, and revenues went up by 84%, and that was the gross margin for this quarter. It was 79.8% for the 9M20.

Slide 13 goes into detail on our financial results. The relative increase this quarter was due to an increase of 39.8% in discounts received on contract terms for flights. Versus 2019, this reduction



was due to a lower cash balance and a reduction in Selic remuneration. Additionally, the nine-year accrued figures were affected this 1Q because of the losses in debt titles, which took place in March 2020, in the beginning of the pandemic.

Now, our last slide shows our net income, which reached R\$50.2 million this quarter, with a net margin of 37%, which is a reversal on the losses we had in the 2Q.

Once again, I would like to thank you all for listening, and we will now begin the questions and answer session. Thank you.

**Victor Mizusaki, Bradesco BBI:**

Good morning, I have a couple of questions. The first is, when we look at the 3Q, there was an increase in IR quotas. Are we going to have JCP distribution again or not? And given the fact that gross billings have continued to grow, you had advanced flight purchases, so you might have an advance in cash position. So are we expecting dividends to be paid out in 2021?

My second question is, considering the yearly contract you have with GOL, when you look at the 3Q results, Smiles' share in the number of passengers transported by GOL increased a lot. So how does that impact the contract you have with GOL? For 2021, should we expect prices to stabilize? Thank you.

**André Fehlauer:**

About dividends, I think it is early to say. We are still recovering from covid, but we are still far from the pandemic being over. So. We are focusing on delivering good results. We hope to have a 4Q that will be strong with a recovery, so that we can then start talking to the Board to see if we will be able to distribute dividends from the 2020 results. I hope I could answer your question.

**Victor Mizusaki:**

Okay, André. Just a point on dividends, considering the IR quota, are we going to have that at a higher levels than the historical one?

**André Fehlauer:**

Actually, I think it is still early to talk about that. Again, as I said, our main focus is on delivering a strong recovery for this year for the last two quarters. We see that the 4Q is starting well, and I am sorry not to answer, but really, we are not sure.

**Victor Mizusaki:**

Okay. Great.

**Felipe Souza, Mirae Asset:**

Good morning, everyone. Thank you for taking my question. In 2020, when the Company announced that R\$1.2 billion, they mentioned several advantages, claiming that some of the initiatives were not quantifiable then. I see that the Company now can, at first, see some advantages in the card, as it is cobranded and so on. But since the Company had a repurchase above their historical average, what would be the payback? How long would it take for the Company to generate that R\$1.6 billion, which was spent with flight advances? Thank you.



**André Fehlauer:**

Thank you for your question, Felipe. There was a deal we had where we negotiated a discount of 11% on the standard fee. We had access to a significant number of promo rates, and boarding tax, and selling products with the cobranded card on the GOL website. So both initiatives, the boarding fee and the cobranded products are still being developed, and we expect to start them by the end of the year.

Obviously, with everything we have seen with airlines, we had to be careful about doing that as quick as we can. We have reduced personnel and so on. As soon as we have the first results, we will discuss them with you.

What we do have clear is that both paying for boarding fees with miles and selling cobranded products on our website works very strongly and very well. So we think this is going to work at an even greater scale in GOL itself.

Regarding advance bookings, we have an important balance with GOL, which initially was going to be concluded by 2023. What we have seen in the first three months from that deal is that we are at a much faster pace than we had foreseen initially. So we are able to capture a lot of value from that deal, especially with commercial and standard rates. So a major part of the result we got this quarter is because of that, and because of the exclusive access we have with them.

It is important to remind you that it does not mean that GOL is having empty flights. In fact, having this deal give provides us access to their inventory, regardless of how the airline is recovering. So we gain in competitiveness versus the main players in the market, we gain an attractiveness. With our financial partners, and you can see this in the growth we had in invoicing with banks, and this benefits the program overall.

Our main business here is booking flights. Clients really want to travel, and they started to demonstrate that in their searches, in the number of flights booked, and it seems quite clear.

And in the end, this provides perceived value for the program, which makes it more attractive and, as a consequence, leads to higher invoicing. So this is due to that agreement we had from the beginning of July.

**Victor Mizusaki, Bradesco BBI:**

Just one last question from our side. Looking at breakage, we saw that these rates came down this 3Q because of increased engagement from Smiles' clients, I believe. Is this breakage rate going to be stable? Would that make sense? Or, given the scenario you mentioned, using your GOL flights inventory quicker, maybe this breakage rate will go down?

**André Fehlauer:**

Victor, that is an excellent question. Thank you. Actually, I think what you said was interesting because as you have engagement, that is going to change breakage. Breakage is good, but it also shows a lack of engagement with clients.

What we saw during the pandemic, and we had some measures that we mentioned, with flights that have been issued and had to be canceled, our work and engagement with clients has to be strong, so that once they redeem miles, they are much more loyal, and they will repeat that for many times. So breakage should be maintained at that level, it should be stable.



What we see very often is that clients change. Redeeming of non-air products practically doubled. But we had a strong drop in, for example, car rentals and hotels especially. But even despite that, it doubled.

We have the Smiles Shopping mall, which has been responsible for a large number of miles redeemed, and it continues to be very high. And we are seeing that flights are growing again. So we are operating with healthy margins, regardless of our product. We believe that clients that are loyal will bring many results. Of course, breakage is a part of it, but it will be relatively stable.

**Victor Mizusaki:**

Okay. Great.

**Operator:**

This concludes our questions and answer session. Questions sent via webcast will be answered by the Investor Relations team via email. André Fehlauer will now make his closing remarks.

**André Fehlauer:**

Thank you once again for participating and for asking questions. I think this quarter showed our recovery. We are seeing a gradual recovery from our worst month, which was April, and we have consistently been able to recover.

We are working strongly with our teams, we are very close to our partners. As you saw in our presentation, our campaigns went up by 30% this quarter. So we understand that the pandemic is still ongoing, and we are going to have to work more than our competition to really make a difference and stand out.

So we have been able to get the fruit from that strategy. We have not stopped investing in technology. Fortunately, we did not have to dismiss any of our employees or cut their hours. Working from home works very well for them. We see that the pandemic is not over. We still have a long road ahead towards our recovery, and we need to recover more and more. The signs we have been getting from our clients, we have been getting positive signals. Searches, redeeming with Uber and flights, especially domestic flights, have been very strong. Invoicing with bank, Smiles & Money. So what we have seen is very positive.

Our final message is the pandemic is not over. We still have to work a lot to be able to go back to the 2019 levels, but we are ready for it. With the technology, with our team, with investments, with cash. And I think we will be able to come out of the crisis with our consistent work and results.

So thank you very much. We wish you all a great end of the year. And let us work a lot so that, once this is over, we have a much better 2021 for all of us. Thank you so much, and I would like to send you my greetings.

**Operator:**

This concludes the Smiles' conference call. Thank you for listening, and have a great day.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company's Investor Relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript"