



GO AHEAD. IT'S VALID 

Conference Call Transcript
4Q20 Results
Valid (VLID3 BZ)
March 19, 2020

Operator:

Good morning, everyone. We will start the videoconference of Valid to discuss the results for the 4Q20.

This event is being sent through a webcast, and today we will have with us Ivan Murias, CEO, and Joel Rennó Junior, CFO and IRO.

Before starting, I would like to make the following important announcements. This event is being recorded and simultaneously translated, and the slide deck will be available at the website for our Investor Relations, and also at the webcast platform. All questions should be sent through the chat box, which can be found on the left hand side of the page and flagged by a flashing red light.

Forward-looking statements made during this webcast concerning the Company's business outlook, financial and operating targets and financials are based on beliefs and assumptions on the part of our management team, and also on currently available information. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events that may or may not materialize. Investors should have in mind that general economic conditions, industry conditions and other operating factors can also affect the future results of the Company, and thus lead to results that will differ considerably from those expressed in these forward-looking statements.

I would like now to turn the conference over to Ivan for his opening remarks, and at the end of the webcast we will have a Q&A session. Ivan, you have the floor.

Ivan Murias:

Thank you, Matheus. Good morning, everyone. I hope you are all safe and well. And also, thank you for being part of our audioconference to discuss our results for the 4Q.

As we have seen before, in past earnings calls, 2020 was marked not only by a different business dynamics, but of course, by the way, we manage the effects of the pandemic on the businesses. Effects which were not known to us before.

The whole executive team and I would like to thank, on behalf of the Company, thank our team HR, our SESMT team, our operations, for the care with our over 5,000 employees throughout the world, control measures, monitoring measures. Thank you all. It was only through the work of those professionals that we were able to keep our businesses going, at the same time preserving value for our shareholders.

The business outlooks were marked by a few items in 2020, and I would like to go over the main events. In the legal event, the president approved the law changing the Brazilian transit code, extending the term for the new driver's license. This will be effected in April 2021. As we mentioned in our 3Q call, the annualized impact will only emerge starting in 2026.

We have been receiving several questions about that, and it is worth mentioning that the operation of identification in Brazil has the variable cost structure, which has to do with the volume of document issuance. And so it will gradually adjust throughout five years. Only in five years it will be adjusted as per the new law. In the short run, however, the management expects a reverse dynamic. In other words, an increase in issuance once



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we have vaccination rolled out. In 2020, both for driver's licenses and IDs, the volumes were about 50% of what we had in a normal year.

It is also important to emphasize that the change in the deadline only applies to drivers with up to 50 years old, five years to renew among drivers who are 50 and 60 years old, and reducing the deadline to three years if you are over 70.

Analyzing the different cohorts, the Brazilian population of drivers who is above 50 years now accounts for 35% of the base. Typically, the penetration of driver's licenses among those people increased by 10 p.p. in the past ten years, given the higher life expectancy for the population and better quality of life for those age brackets.

Throughout the history of Valid, CEOs and executives got to where they were after treading an internal pathway. Now, we decided to innovate also in the way we appoint our leadership, looking out for market professionals. So myself, Joel Rennó Junior, who is here with me, and Daniela Belisario joined the Company in that context. We are quite excited with this opportunity, but we are sure that, along with the qualified professionals that we found here, and in combination, we will be able to pave the way for the Company going forward.

We strongly believe in this strong combination of different professional backgrounds and repertoires, along with the experience of those who already know the asset and has been around for longer, we will be able to overcome the challenges that lie ahead.

This new team intends to rescue the Company's market value and prepare it for a digital transformation and a higher cost efficiency, generating more value to our shareholders.

We have already started on that path, for example, by closing our corporate office in Rio, and the announcement of the transfer of our productions, which happened in São Bernardo do Campo, to our larger plant in Sorocaba, in the state of São Paulo. As a consequence, we reduced fixed costs and we also sold our plant in São Bernardo.

As for the year's dynamic, on top of changing in the management makeup, we also accelerated the Company's digital transformation through the use of new platforms. Digital ID in São Paulo and the acquisitions of Estacionamento Digital and Mitra, which will strengthen our front for smart cities.

To make our cash flow clearer, and also to provide better guidance for those digital initiatives, we hired Bain, who helped us in our strategic planning and reassessed the assets that the Company already have, trying to find and identify synergies across the different areas where we operate, and different locations as well.

Also, the idea is to point to new businesses that make sense, and also those who no longer makes sense in our service portfolio. We are now in the final phase of that work, and we will close that on our Capital Markets Day in April. We will announce that very soon, and there we will have more details around those initiatives.

Lastly, we also announced early in January a capital increase movement. After the apportionment phase on March 5th, we raised R\$99 million, 75% of adherence from our share base, which was a strong sign of confidence from the shareholders. Those resources will be allocated to strengthening our capital structure, improving in our cash position, a reduction in the Company's consolidated leverage, and other corporate purposes.

Also to work on the profile of our short term debt, we have put together our debtors under a syndicate. As we move ahead, we will communicate the market about that.

Once again, thank you very much for participating. And I will give the floor over to Joel, who will go into the details about our financial numbers. Thank you, everyone.

Joel Rennó Junior:

Good afternoon, everyone. It is a pleasure to be with you here today.

As for our financial numbers, we reached in the 4Q20 total net revenues of R\$538 million. This was the second quarter in a row, the strongest in terms of net sales since the 1Q19, which goes to show the good, strong recovery of our businesses.

In the year, we reached a net revenue of R\$1.9 billion, a drop of 3.4% vis-à-vis the same period of 2019. That is an interesting piece of data because on the relative basis, in other words, when we compare our performance. In terms of sales, 2020 compared to other businesses which were highly impacted by the pandemic, we see that we were able to recover businesses fast even during 2020, which also shows the very good performance of our businesses. Some lines were not so directly affected by the covid-19 situation.

You can see here on the right hand side of the slide, the evolution of our document issuances, our ID areas, something close to 20% of our total revenues for that year, and something close to 50% of our total EBITDA. From the bottom of the crisis in April through the last month of the year, in December, we saw an increase of 12x, an expressive growth. Once again, that emphasizes my argument that we have seen a level of recovery which was quite strong, albeit gradual, of our operations.

Another important data point is that our payment business, as you can see here, based on the revenue mix, the green bar is performing really well, actually expanding quarter on quarter.

Next slide, please. In terms of economic results, the financial results, in the 4Q20, we reached a total EBITDA of R\$50 million, which represents a drop of 37.5% when compared to the adjusted EBITDA for the 4Q19.

In terms of full year 2020, we reached a total EBITDA of R\$202 million, a drop of 34.5% when compared to 2019. It is important to emphasize here that that number, that EBITDA level for 2020, not only for the 4Q, but throughout the year, had an extraordinary event, nonrecurring, a nonspecific cash effect of R\$19 million. But throughout 2020, we cleaned out our cash.

The cleaning service led to impairments, accounting write-offs, and so all those nonrecurring, extraordinary effects with noncash effects totaled something close to R\$170 million.

So from a more organized point of view, as we have cleaned our slate, our normalized EBITDA for 2020 would come around R\$372 million, which would represent something close to a positive 20% when compared to 2019.

Of course, we cannot look at the past all the time, but it is important to have a guidance for the future based on those numbers.

So today, as we understand here, looking forward, except for unusual, isolated adjustments, which are also normal, those impairments, those extraordinary one-off events, which are nonrecurring, will no longer negatively impact our operating performance, starting 2021.

So that is how we understand that picture. That is what we agree on, based on our confidence that we are starting from a clean slate. Our focus now is looking ahead, growing the Company.

Next slide, please. As I mentioned, 2020 suffered from nonrecurring one-off events, and as a consequence, during 2020, for the fiscal year, we saw a net loss of R\$201.6 million. In addition, it is also important to mention a few other relevant factors. You can see here on this line that from 2019, when compared to 2020, we tripled non-operational revenues. That is coming from foreign exchange variation, which had a positive impact when compared when we compare both years, 2019 and 2020.

Across the other lines, we see a relatively flat variation when we compare 2019 with 2020. The main difference, the main gap is our starting point. In 2019, we start from an EBITDA of R\$309 million, and in 2020, our starting point is R\$202 million. Once again, as I just mentioned, if we could exclude the one-off effects we had in 2020, that number would be sitting at around R\$370 million.

Next slide, please. In the 4Q20, we also had an operating cash generation at R\$144.8 million. In the 4Q19, that number set at R\$94.4 million, so a sharp increase of 53%. Even though 2020 was a year, again, as it was said before by Ivan where we had several different challenges for the Company, still, we totaled in 2020 an operating cash generation of R\$294 million, as opposed to R\$299 million in 2019, which accounts for an increase of something close to 15%.

The Company saw a substantial increase in its cash management, especially around working capital. And that, of course, is driven by initiatives which were put in place by the whole Company, by the management, respective to efficiency gains specifically, and also in accounts receivable, renegotiation of average receiving terms, the extension of average payment terms that has really benefited our working capital dynamics, and also, a much more efficient management of our inventory. Those actions, when combined, led us to a relevant again, as I mentioned just now, in terms of operating cash generation.

Also important to mention about this slide, it has to do with targets. In 2020, we had R\$128 million in new investments, in CAPEX. That is a very relevant data point that exceeds the total CAPEX we had in 2019, which was R\$115 million. That is something we did on purpose, that is a strategic decision as we invested with a lot of discipline in our current businesses, our existing revenue streams, but also as we pave the way for new growth avenues going forward.

We closed the year with the cash position of R\$543 million, R\$225 million above our end cash position in 2019, and that number does not contemplate the recent funding, which was mentioned by Ivan, that happened just now in March.

Next slide if you will. In terms of the debt profile, it is a priority for the Company, mine, and specifically for the whole Company, it is a priority that we have, the level of debt. We reached the end of 2020 with a net revenue of R\$647 million net. That does not take into

account our capital increase. In other words, that cash of R\$544 million, which you can see on the slide, today, after the capital increase, it is closer to R\$600 million.

Consequently, one of our most important financial covenants, the net debt to EBITDA ratio drops from 3.2x to something close to 3x, in light of our capital increase, as I mentioned. That is an important data point as well, and provides us with some comfort level, not only in terms of the fact that we were successful in our capital raising, but the Company's cash generation was also in a good level. And also, it proves that we are recovering our performance level across our revenue streams, and we are fully capable of meeting our financial obligations with our creditors.

Next one, please. Next slide. Subsequent events, a brief summary of what we talked about. Capital increase, it was a successful round in March. We brought into the Company's cash R\$99 million in new funds.

It is important to emphasize two things. Number one, our institutional shareholders, which are more relevant, seven of them participated very actively this capital increase. That is an interesting piece of data as well.

Another important bit of information is that our capital increase, you will remember that we issued share together with an underwriting bonus. They are already being negotiated at B3 with VLID11, that is the ticker. Those bonuses will be able to be converted into Company's shares in March and in September of next year. In other words, assuming the Company's share price in March and September of next year be above R\$10.96, we will automatically have the raising of R\$120 million in the Company's cash, because of a capital increase which has already been implemented.

So when we add up those R\$99 million with the expectation that, if we have a good performance in our share price, above R\$10.96, we will have an increase of around R\$218 million. So for 2022, we will be bringing into the game another R\$118.8 million.

as I mentioned before, our priority today is to renegotiate our debt, restructure our debt. We are in advanced phase of negotiations with our creditors pool. We have been successful in renegotiating and extending the debt that we have with Safra Bank at R\$30 million, total amount.

That is what I had as my opening comments with all of you. Ladies and gentlemen, I would like now to start and open the mic for our Q&A. Thank you all for participating so far.

Pedro Zaniolo (via webcast):

Can you talk about your performance in the 1Q? And how are your businesses being affected by the second wave of the pandemic, the new restrictions, lockdowns? How do you see 2021 going forward in terms of revenues?

Ivan Murias:

Pedro, thank you for your question. Right now, we have different types of dynamics across our three main businesses. In terms of ID, as it was mentioned, we had been improving gradually, we are on an uptrend. January was better than December, February was better than January. And now in March, out of our 12 operations, we have four which are shutdown, São Paulo, Rio, Parana and Rio Grande do Sul, and the remaining eight

are partially operating or working remotely. And this will certainly impact our numbers for March. And the consolidated numbers for 1Q for ID will be below the numbers he posted last year, in the 1Q19.

On the other hand, for bank cards, we have expressive amounts which are offsetting somewhat the loss we are seeing in ID in the 1Q, especially because traditional banks, banks that are closing down branches and they are moving clients around across different branches. And we see an incredible growth of fintechs. So bank cards have seen growth of around 40%, 50% month over month.

The same goes for SIM cards. We see a marginal growth in volume, and also an increase in average price because of an important shortage of silicon, which has led some of the players who have inventories, which is our case, who are able to pass that price increase on, thus improving our sales mix.

Going back to ID, knowing the curves for 2020, we expect to have 2Q under a higher pressure, April, May, and it is difficult to make a forecast after that. But unlike an airline, where they lose their seats, our volumes of drivers' licenses, they need to be issued because they are maturing, they are expiring. So most of those 50%, which were not issued in 2020, we expect to see them being issued in 2021, so we may have a 2H21 at a faster growth pace, especially when compared to the end of last year. We cannot now give you a precise forecast, but we do believe that ID will recover in the 2H21.

Gabriel Coelho, shareholder (via webcast):

About the impairment you posted last year concerning you American operations, was there a reversal? Or is there a chance of reversal of any other kind of future adjustment? Was the Company conservative? Where are you going along those lines?

Joel Rennó Junior:

Gabriel, we were extremely conservative. I would say realistic/conservative. We had to do a write-off, and there was going to be no leftover from that accounting write-off in what concerns our American operations for 2021 going forward.

The total amount was R\$135 million that was written-off. That of course impacted the Company's EBITDA significantly in 2020, but that, as I said, was necessary. It had to be done.

In other words, we will not revisit that. That is past waters. And once again, this was part of our work as we were trying to start from a clean slate.

As for Bain, it is a strategic partner. It is not under their scope to address the impairment. They help us along two different fronts, which are providing support to our current existing revenue streams, and helping us to better position ourselves to extract even higher value from the existing revenue streams, and also providing support to new businesses and future revenue streams. In other words, new growth lines, so that we can unlock value and capture that value in the coming years.

Gustavo Barros, shareholder (via webcast):

About the mobile revenue, it has increased. But if we consider the 30% foreign exchange devalue, the volumes decreased.

Joel Rennó Junior:

You are correct. And thank you for your question, by the way. The volumes dropped by 30%, but that is an operation totally pegged to the USD, so our revenues are also in USD. So even though we had a drop in volumes sold, the foreign exchange rate in this period was significantly appreciated, so that made a difference.

Lucca Marquezini, Itaú BBA (via webcast):

Good morning, everyone. Thank you for taking my question. Our question has to do with mobile. We saw a significant increase in EBITDA margin in the 4Q. Now, if we look forward, is there room to expand that margin even further?

Joel Rennó Junior:

The answer is yes. We have been focusing on operating efficiency, on productivity. We have already executed a series of initiatives along those lines, and we expect to increasingly work around operational and financial excellence. And if everything goes well, we will expand that margin even further than we did in 2020 around our mobile businesses, as the question was pertaining to.

Guilherme Passarella (via webcast):

What is the expectation for 2021 considering the work provided by Bain? Any change for digital services in the horizon?

Ivan Murias:

Thanks for your question, Guilherme. As we see it, no investment made in the Company's digital track was wrong or badly positioned. We have a very important work going forward to implement a more agile cultural, a digital culture, and that implies conducting rigorous quarterly assessments, and then change course at a more expedited pace, more strategic.

And to do that, we need to empower our team to be monitoring that. So as a whole, we should not change our track, but as we develop those digital pathways, we will have to make choices in terms of where to concentrate our investments, and concentrate those on the more promising ones. And that would be the main change in the Company's culture, but not investments per se. It is rather more in digital culture.

João Santos, shareholder (via webcast):

Good morning. Could you please comment on investments made by the Company in the 4Q20?

Joel Rennó Junior:

In the 4Q20, João, investments were basically made on the usual business to import more operating efficiency on our businesses. As I mentioned during the presentation, 2020 was marked by an increase in our total CAPEX, which reached R\$128 million, vis-à-vis R\$114 million in 2019.

In addition to investing in our existing businesses, we are now also starting gradually to sow the seeds of what we expect to become our future revenue lines, or streams for Valid in the future.

Vanessa Foglia, shareholder (via webcast):

On the follow-on, any potential acquisition in your radar? What are you doing to go back to a profitable level? When do you expect the Company to resume profit levels seen in 2015?

Joel Rennó Junior:

I will start, Vanessa. Thank you for your question and for participating in our call. The follow-on money is not earmarked. It is an important data point. So the answer to your question is that we can use the follow-on resources to establish smart partnerships and invest in new business lines, and maybe make one-off acquisitions.

As mentioned, the capital increase reached R\$99 million, and assuming a good performance of our shares this year, next year, in March and September, we may have an increase of another R\$150 million.

What we are doing to resume profitable levels, Vanessa, is the result of a combination of initiatives. Ivan did mention some of those, or several of those initiatives. Ivan, would you like to jump in and recap what you said, or add to what you said?

Ivan Murias:

That is what Joel was saying, I agree with him. We have concentrated efforts on the Company's core assets. We have a good idea of what is going with the ID business vis-à-vis the pandemic. We expect that, as vaccination advances, we have to be ready to deal with the higher demand that we will see in terms of issuance.

And at the same time, we are accelerating our digital initiatives. The implementation of the digital culture, as I said, the transformation of the Company to be more expedited in terms of digital portfolio will take us back to a more profitable level sooner than later.

Rúbia (via webcast):

Is there a possibility of expanding Estacionamento Digital for 2021, 2022?

Ivan Murias:

The answer is very likely no. We will concentrate on the Brazilian assets right now, which is our main asset. The Estacionamento Digital still has a good pipeline to be explored in Brazil. And as to other geographies, we are going to analyze each one of the regions P&L scenario, and for those regions where the distraction for the management is disconnected with the possible profitability, our decision would be to leave those geographies and concentrate our efforts here on Brazil. So it is a very intense expansion dynamics within Brazilian cities for 2021, 2022.

Joel Rennó Junior:

Going back to Vanessa's question, of course, in addition to our tireless focus on our existing businesses, and also, of course, on new initiatives which are already being put in place by the Company, concerning new revenue streams, new businesses, especially digital businesses, another relevant factor for us to resume profitable levels fast is, of course, that cleaning of the slate that I mentioned that we did last year. That was really radical last year.

As I mentioned before, our guidance going forward is that we will not see impairments any longer, one-off events as the ones we saw last year. Along those lines, accounting net profit will certainly be positively affected going forward.

Gustavo Barros (via webcast):

Does the Company intend to use BluPay to compete with the fintechs for their clients?

Ivan Murias:

Gustavo, thank you for your question. Initially, the answer is no. BluPay has two strategic purposes for Valid. Number one, to deepen our footprint in the payment means scenario. We do electronic services for banks and **educos (37:47)**, and BluPay will continue to provide support to our digital transformation through the PIX facility.

So our solution would be a white label for an **educos** to conduct direct billing of their students without having to go through either a physical or electronic billing. That is one of the main future sources of revenue for BluPay.

As for governments, BluPay might have an important role to play as the government's wallet. This week, we started distributing amounts for schoolbooks for the city of São Paulo through BluPay. That means that, unlike what we had in the past, where the government would physically buy books, notebooks, school material in general and would resort to a very complex logistics grid to distribute those materials, this year, the city of São Paulo, through BluPay, was able to distribute those resources to parents who were able to make those purchases directly at the participating stationary stores.

So that strengthened our position as a good partner, not only for school material, but also uniforms, school lunches and a series of other services that cities provide to citizens.

So that is one of our missions on BluPay, and we will explore the assets along those lines going forward.

Thiago Arnaud, Banco do Brasil (via webcast):

Good morning. Thank you for the presentation and for taking my questions. As for the new management, in line with the concentration of efforts on the main businesses, is there any expectation to focus on Brazil to the detriment of the Company's international position and the impacts on mobile? And I refer to China specifically, where we see a good growth potential.

Ivan Murias:

Thanks for your question. Actually, when we assess our international businesses, and this was, of course, the object of our studies along with Bain & company, we assess the size of those markets, the potential of those markets today and in the future, and we also have to assess our ability to win. Can we win in those markets in the short run or in the long run?

So two observations here. When you talk about telcos, even though it is a business of worldwide geography, what we have is supply offices and commercial offices, which are spread across the world to provide maintenance services to the different telcos of different countries.

Those offices are usually small. Commercial offices have a very asset light structure. So for that line of business, we are considering a migration from 4G to 5G, and then 5G to eSIM, or embedded SIM, or iSIM. We see that as the future evolution of the business, and we consider our ability to win to be relevant enough for us to continue to pursue success in that line of business.

But right now, we are looking into our manufacturing plants, where we have to monitor that very closely, and that, of course, is a source of distraction, because it is an important asset that we have, especially in Brazil, and we have to look at those more carefully because they are a major distraction in terms of organization overstretch vis-à-vis what they provide in terms of EBITDA.

As we analyze those two fronts, we will be making decisions to divest in the future, but they do not involve the telco businesses.

Diego Rosa, shareholder (via webcast):

I want to know about Agrotopus.

Joel Rennó Junior:

Agrotopus is one of the companies in our Group, and it is focused on agribusiness. And its purpose is to optimize the processes for agricultural cooperatives, also around credit lines, adding more technology to the whole agribusinesses chain, and thus generating value to one of the main pillars of our economy.

Agrotopus today, Diego, it represents a very small line of revenue for the Group as a whole. But what I can tell you is that it has been performing really well, 'uptrending', and we do have good expectations that it will gain even more traction throughout 2021.

Ivan Murias:

Just to add to what Joel said, Diego, we will implement that evaluation track for digital businesses. We have just completed the most recent contracts for Agrotopus, we already see some traceability businesses ramping up in Brazil to trace coffee or to trace chemicals. Those are the two main verticals where we operate.

But again, the digital world, more than having our budget early in the year, and then you maintain that budget on a stable way throughout the year, we will be analyzing in the



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coming quarters how much level of traction we will have across those initiatives. And then we will focus our squads on whatever is more promising.

We have some businesses which are ramping up, and we will be monitoring those more closely, and then making decisions according to how those businesses perform vis-à-vis our other businesses.

I think with Diego's question, we now close the Q&A session. I would like to, once again, thank you all for participating in our earnings call. The Company, our IR team and I remain available to all of you for questions or comments you may have in the future. We will continue here, and we wish you all your all safe, healthy and with your families.

Thank you for being here today, and I will see you next time.

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