

Operator:

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to Smiles 1Q14 results conference call. Today with us we have Mr. Leonel Andrade, Chief Executive Officer, and Mr. Flavio Vargas, Chief Financial and Investor Relations Officer.

We would like to inform you that you will be in listen-only mode during the Company's presentation. After Smiles' remarks are completed, there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

We have simultaneous webcast that may be accessed through the Company's website: www.smiles.com.br/ir. The slide presentation may be downloaded from this website; please, feel free to flip through the slides during the conference call.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities litigation reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of Smiles' management and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Smiles and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the call over to Mr. Leonel Andrade, Smiles' Chief Executive Officer. Mr. Leonel, you may begin your conference.

Leonel Andrade:

Hi, everyone. Good morning. Thanks for coming to our conference. It is a pleasure to present Smiles' results for the 1Q14.

Following in slide three, we had a net profit of R\$78.3 million during the 1Q14, with a margin above 40%, 16 p.p. higher compared to last year and 6 p.p. higher compared to last quarter. Our gross billings reached R\$264 million, up 10% over last year, and we had 9.2 billion miles accrued, flat with last year. It is important to mention that our gross billings were not that affected by the exchange rate, because there were a lot of miles sold in advance in the 2Q13, with a locked exchange rate.

On the last General Shareholders' Meeting, capital reduction of R\$1 billion was approved, which is very good news for our shareholders, which means R\$8.19 per share, seeking the optimal capital structure for the shareholders. We also are proud to announce two new partnerships, Aerolíneas Argentinas and TAP, the Portuguese Airlines Company. Aerolíneas is already operational for the accrual and redemption of miles, and the agreement with TAP was signed during the 2Q. TAP will be operational by the end of the 2Q14. One year ago, Smiles offered its customers 560 destinations, and with TAP we will offer more than 700 destination options.

We remain focused on our customers, with innovation in mind. This quarter we launched our product *reserva*, or booking, in English, unique product in the Brazilian market. We also launched our mobile site, so our customers can issue tickets in a simple and fast way. We also had the approval from the regulators for our minority acquisition of Netpoints, which I will detail ahead.

Going forward in slide four, I would like to mention that we grew 10.5% over last year in terms of gross billings and we were 7% shorter over last quarter, especially due to the seasonality. It is important to mention that flat growth in miles accrued is good news, considering that we have improved our margin substantially. Even if we had a different comparison basis year, as one of our partners, you know, Itaú, announced a change of rules peaking the 1Q13 unfavorably, we are very confident that we will go back on growth in the 2Q on miles accrual. In fact we are growing a lot this month, and in April we had a very good performance and in May we are growing a lot again.

In slide five, we can see the miles redemption growth of 6% over last year, indicating our customers' engagement to the program.

In slide six, we announced our partnership with Aerolíneas Argentinas, then with it we became the dominant program between Brazil and Argentina, the second largest destination for Brazilians. Also, with TAP, the main company that operates between Brazil and Europe, we will become a stronger loyalty program, along with KLM, Air France, and Iberia. And we remain focused on airline partnership, with three or more coming up in the next months. All in all, we reached more than 700 destinations with the addition of TAP, a new partner for the program.

In slide seven, Aerolíneas is operational, and here are some of the company's relevant information. We have important destinations within Argentina and also in South America.

In slide eight, we continue focused on innovation and customer experience, and the new online booking product allows our customers to reserve their seats for three days, so they can talk to their families before confirming, or in the case they wanted to transfer, purchase, or reactivate their miles later. Our customers were cautious about transferring their miles and then issuing their tickets, but here they can book and then accrue their points. The first indicators of this product are performing very well.

On slide nine, our mobile website allows our customers to check their flights, issue GOL tickets, join the program, and also join our Smiles Club, in a quick and easy platform everywhere, anytime.

In slide ten, now I am going to talk about Netpoints. I have no doubts that Netpoints will soon become the best and biggest retail coalition loyalty company in Brazil. Together, we have the best value proposition in the market. Together, we have 15.1 million potential customers, with little overlap, and we will use our base to leverage our partners' gross billings.

Netpoints grew in number of members, but more importantly grew in terms of engagement, 500% more extended comparing to last year. But I think that soon we will have very good news about Netpoints. And we had announced one month ago, some weeks ago we have announced that now Netpoints has new partner, a new shareholder, which is *Lojas Marisa*,

which is a very big retail around the Country. So, exactly after we have the license from the regulators, *Lojas Marisa* will transfer their loyalty program into Netpoints.

So, now Flavio will speak. Flavio Vargas, our CFO, will speak a little more about this quarter's financials, and I am available for questions after that. Thank you very much.

Flavio Vargas:

Good morning, everyone, and thank you very much, Leonel. For me it is also a pleasure to be here today to present Smiles' 1Q results. We are very happy that on this quarter we had a net income of R\$78.3 million, which is 17.5% higher than the last quarter and 162% higher over the last year. We ended the 1Q with net revenues worth of R\$188 million, which also represents a strong growth of 61.3% when compared to last year and pretty much flat when compared to the last quarter.

When we talk about the gross billing, it is worth mentioning that the recent exchange rate did not have a substantial impact in the amount of the gross billings, as a substantial amount of the miles that we sell to the financial partners had been anticipated last year in connection with the IPO.

Then, jumping to slide eight, we present the direct margins of our products. We are very happy that we have enable to show consistent results in line with our expectations, showing a combined margin for the products, which are 100% miles products and the Smiles and Money product, which was 0.5 p.p. higher when compared to last year.

Going to slide number 12, we present the breakage for the 1Q14. We ended the quarter with a breakage rate of 16.9%, which is 1.4 p.p. higher over last quarter. The increase in the breakage rate is chiefly explained due to the promotional accrual that we have had over this quarter. This is using promotional miles with different expiration time has been one of the levers that we had been using to test and to minimize the cost for Smiles in connection with the promotional activity.

Going to slide number 12, we break down the quarter results. We obtained net revenues of R\$188.1 million, with R\$112 million worth of miles coming from the redemption revenue and R\$70 million coming from the Smiles and Money product. Our redemption cost and operational expenses were also very consistent and controlled and totaled R\$119 million, which led to R\$69 million operating profit, representing a 36.7% margin over the period. In a nutshell, we ended up reaching R\$78.3 million of profit, with a 41.6% margin.

Going to slide number 14, we present the performance of our stock since the IPO. We obtained a positive result and return of nearly 100%, while Ibovespa for the same period presented a negative result of 4.4%. In line with our commitment with the shareholders, the General Shareholders' Meeting approved the confirmation of R\$160 million dividend, which is going to be paid on July on May 14th. And we also approved R\$1 billion capital reduction, which represents an extraordinary payment of R\$8.19 per share. The effective date for the capital reduction is going to be announced later on, after the 60-day legal period for the credit position and which is going to be in the beginning of July.

I hereby end the comments regarding the 1Q results for this year and open the floor for the Q&A. Thank you very much.

Catherine O'Brien, Deutsche Bank:

Good morning. I had a couple of questions on the impact of adding a partner airline. I was just wondering from the time that you implement a typical accrual redemption agreement with the partner airline, how quickly do you see impact from your members using partner airline flights to accrue Smiles points? And I was wondering if you could just put some numbers on the financial impact of adding an airline partner?

Leonel Andrade:

Hi. Thank you for your question. In average, we are talking with lots of possible partners. In average, between the contracts and the operation we spend some months, normally between four and six months, and this is our priority. In fact, in terms of redemption the international partners are the best opportunities. We are growing more in the international than in local redemptions, probably we are going to grow something like more than 50% this year. But to be honest, I do not have at this moment the number that we are expecting, and what it will be representing in this Smiles program, but this is our priority.

Let me ask Flavio to add some comments.

Flavio Vargas:

You know, when we talked about the implementation and how effective it is in terms of timing, definitely the redemption is much more... you can see the results much faster, because once the redemption is implemented, it automatically appears in the online system for reservations and booking. So, whenever you add a new partnership, automatically you add up more availability to the clients and then they can start redeeming.

When we talk about the accrual, the accrual is more the creation... you need more education from the customer, because they have to effectively go to the airline, whenever he is allying one of the airline partners, and they have to request the miles to be accrued. So, it usually lags sometime until people realize that the partnership is effective, and we start to request the accrual of miles.

But then, in terms of the financial impact, as of today the amount of redemptions that we have coming from international partners still represent less than 5% of the total redemption. So, definitely it is something that is expanding the amount of partnerships and expanding the amount of availability, it potentially can have a good impact, especially for the more people and for the more heavy users for the credit card and frequent flyers, because they have in terms of expectations, having the international redemption availability, it is something that they put a lot of value on.

Catherine O'Brien:

Great. Thank you. And just one quick one on Netpoints, if you do not mind. So, I realized it has only been since April 15th that Netpoints are available to convert into Smiles points. I know you

said the product was going well; have you noticed that a significant number of Netpoints members have been taking advantage of their ability to use Smiles points? And how quickly do you think you can start involving those 5.2 million Netpoints customers into the Smiles program? Thanks.

Leonel Andrade:

Let us put Netpoints into perspective. When you look at Netpoints from a strategic point of view, we definitely see that they have a very good platform to develop the retail part of the business. But Netpoints itself is still a startup; last year they had consolidated gross billings less than R\$7 million. So, they are still a tiny company, so the amount of deferred revenues that they have, that can be converted into Smiles is still tiny.

The main principle of buying Netpoints is that, when you look at the retail side of the business, they were the ones in the market that were doing the best job. So, that is why we have invested in a minority stake, we have the option to acquire control in five years and we have a bunch of entrepreneurs that are doing the nicest job in the market.

But still, in terms of the potential for the redemption, it is still tiny. Our view on having this conversion is that it brings a lot of value from the Netpoints product and selling proposition that will make their life easier to sell Netpoints to other commercial partners. But still this is not going to move the needle for us in terms of gross billings in the short term.

Catherine O'Brien:

All right, great. Thank you so much for all that color.

Alexandre Spada, Itaú:

Hi, gentlemen. Good morning and congratulations on strong results. Most of my questions have already been discussed in the Portuguese conference call. But I have one left. In the 1Q14, the breakage revenues was boosted by nearly R\$5 million because of the expiration of some points or miles that were given as promotions and those miles had a very short life span until expiration. I just wonder if those promotions continued in the 1Q, and if we can expect further impacts on breakage revenues in the following quarters for the same reason. Thank you.

Flavio Vargas:

The main promotion that impacted the results in the 1Q and in this quarter were the promotions that we launched in the mid of October, together with GOL, for flights that occurred until December 2013. So, this is the major effect that had an impact in the 1Q, because you have a lagged period, especially for the retroactive credits. After people fly, they usually take some time to accrue the miles and then the miles expire; on this promotion I think it was 30 days later.

We have started to test this concept with the promotion with other partners, with other length in terms of the time to expiration, which are longer than one month. It was a six-month period, so that potentially can have an additional impact more in the 3Q and 4Q, because we

sensed that, having a different short span for the promotional miles was a way to promote the program and give the benefit for the client that is engaged in terms of accruing and redeeming. So, that would make the promotion more effective. And this is a strategy that we are starting to pursue. So, potentially you can start to have this effect on a more recurring basis in the financial stage.

Alexandre Spada:

But, Flavio, correct me if I am wrong: probably not in the 2Q?

Flavio Vargas:

Yeah. As of today we do not have any promotion that would mature the miles in the 2Q.

Alexandre Spada:

OK, very clear. Thank you. And other question: it seems that you have been really pursuing that strategy of preferring healthy margins instead of a very fast growth in billings. Do you agree with this, that you will continue to favor margins instead of growth if you have to choose between those two?

Leonel Andrade:

Spada, as we always said, margin is the priority. Of course, we believe that we can return to the growth conserving the margins, which is good is that we have the ability and we have the management in place in order to accelerate or reduce our speed in terms of growth. And as I said before, in this quarter for example, the 2Q we are growing again in a very good way. And I think that we can present a very good margin or conserve or have a very good margin this quarter again. But you are right; the priority is the margin. If we need to make an option, of course, margin is the priority.

Flavio Vargas:

But, Spada, even if you look into perspective, even though we had a decent margin, at least the way that we track the pricing for Smiles and the competitors, it did not affect our overall competitors in the marketplace. At least our analysis shows that in over 55% of the flights we have a price which is equal or better than the competitors'. So, what we are trying is to be very surgical in terms of where we have the opportunities to expand the margins, but we are not giving up on the value proposition for the final client, because we want to deliver a lot of value for the clients in terms of what he can get with the miles that he accrued at Smiles.

Alexandre Spada:

Thank you. Very clear.

Leonel Andrade:

Just one more point, what is good is that we are very aligned with the airline company, with GOL. They allow us to deliver new products and to establish the price, and every time we are

together discussing new opportunities. So, I think it is very important. We are aligned with the airline companies allow us to maintain or to develop our strategy in terms of margins and products and growth. Thank you.

Alexandre Spada:

Thank you.

Raphael Frade, Bradesco:

Hi. Good morning, gentlemen. Just a follow-up on a comment from the Portuguese conference call, if you could remind us where your expectations are in terms of when the anticipation with some banks will end. And you commented that maybe with one bank now your expectation is that it will end only in the 1Q15; that seems to be longer than previously expected by you. I would like to understand if you have any view on why this is, maybe because other programs are gaining some share, for example the programs from Azul and Avianca, or really because the level of spending by clients are reducing. So, if you could give us some color about that?

Flavio Vargas:

Rafael, if you look at the numbers, we had a run rate of around R\$70 million, which was consumed over the last quarter. If we run rate, at the end of 2Q we would have around R\$30 million to R\$35 million, and this remainder is the part that probably can take some more time to get used.

In terms of the consumption, different banks and different partners have different run rates. One of the partner is not using as fast as we had anticipated, and in our view at least the discussions that we have is not migrating into Multiplus or Azul or Avianca. It is more part of the strategy of trying to retain more miles inside the program. For us, it is natural that different partners have different performance over different periods.

Raphael Frade:

OK. It is clear. Thank you, Flavio.

Ricardo Alves, Morgan Stanley:

Hi, Leonel. Hi, Flavio. I have a few questions, as I could not dial in the Portuguese call. So, sorry if this has been discussed already. Just, first, a very quick follow-up on the Netpoints question. You seem to have a very optimistic view on the acquisition, but I also understand it is a startup, as you mentioned. So, I was just wondering if we could expect a positive equity contribution from Netpoints to Smiles in maybe 2015 already? Do you think that is feasible?

Flavio Vargas:

Probably you mean in terms of the amount, whether Netpoints is going to be profitable within 2015; probably not. But in terms of the impact on the bottom line for 2014 and 2015, Netpoints should be a detractor to the bottom line.

Ricardo Alves:

OK, that is clear. Thank you. And just last one on the operating expenses, guys, we saw a meaningful decline on the SG&A as a percentage of revenue. I think it was about 10% or so. Right, a meaningful decline versus previous quarters. Is this the level you are comfortable with, this more or less 10% of revenue?

Leonel Andrade:

So, especially when you compare the G&A and other expenses in the last quarter, keep in mind that in the 4Q13 we had a substantial amount of expenses related to the marketing and to the campaign that we launched, starting at the end of September. So, that led the amount of expenses in the 4Q to be at such order of magnitude. The amount that we have for this quarter, they are probably a little bit lower than our expectation of what the normal run rate is going to be.

Flavio Vargas:

Just to add something, some comments, I think the fixed cost will be stable. The good news is that now the team is complete and we do not have additional expenses. And of course we can manage the marketing expenses. The costs from now on, if we increase the cost, it will be in investments, like in marketing campaign, which is good. I think that in the next quarter we will have a little bit more expenses, but not a significant big loss; something like that.

Ricardo Alves:

OK. Leonel, thanks. Thanks, Flavio, as well.

Operator:

As we have no further questions, this concludes the question and answer session. At this time, I would like to turn the floor back over to Mr. Leonel Andrade for any closing remarks.

Leonel Andrade:

Again, thanks a lot for your support, and we are very proud to manage this company at this moment. I am very happy to delivering the results to our shareholders, according to their expectations. And I think that we have conditions to remain in that path and, at the same time, managing very well our margins and our capacity to grow. And in the next quarters, we remain in the condition to innovate and to deliver new products and services to our customers in order to continue increasing the engagement.

So, thanks a lot. We remain optimistic with the Company and with the market. Thank you very much.

Operator:

Thank you. This concludes today's Smiles 1Q14 results conference call. You may disconnect your lines at this time.



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