

Operator:

Welcome to the Smiles' conference call to discuss the results for the 2Q18.

Soon after the presentation of the Company, we will begin the question and answer session. To ask a question, please press *1. If you need any assistance during the conference call, please call an operator by pressing *0.

Please, be advised that information given during this conference call may contain forward-looking statements, or statements about future expectations. Such information is subject to know and unknown risks and uncertainties that may cause such expectations not to materialize, or to be substantially different from what we expected.

Today with us we have Mr. Leonel Andrade, CEO, and Mr. Marcos Pinheiro, CFO. We will now give the floor to Mr. Leonel Andrade. Sir, please proceed.

Leonel Andrade:

Good morning, everyone. First of all, thank you all for being here for the results conference call for the 2Q18. I would like to invite you to go to slide four, with our financial and operational highlights for the period.

For the 2Q, we have had strong growth in billings, it was an historical record. We grew almost by 19% compared to last year, and this shows that we have been bringing on a lot of volume and clients, and substantial growth. We will give you more details later.

Our record accrued miles totaled 25 billion miles, as well as we also had a record redeemed miles, totaling 19.1 billion. In both cases we have had some growth.

Our net income reached R\$114 million, which is not a very satisfying result, and we will give a lot of details on this. This has represented a drop by 26%, this is clearly not good, but we are working to revert this, and we will give you more details in a moment.

The financial result, as expected, because of the substantial drop, is in line with our expectations, due to this drop in Selic.

Two things mitigate it for us: the strong growth in cash, because of the enormous billings that we had, and the anticipated purchases of GOL that have a stronger result on return than Selic.

We will now go on to the next slide, which is slide five. These are the actions that we have done in the quarter, and I believe that you probably want more time for questions, and we are here available to answer them all.

In the following slide, we have four new airline partners for Smiles, a program that had basically two companies, and we now have 18, in a two-year period, and these airlines give us a lot of flexibility for Africa, which we did not have alternatives for us clients, and also for connections in Asia and Europe, and improving our business overall.

We have the entrance of the partnership with Passaredo, which is for small cities in Brazil. This adds a lot of value, although it is a small company, but they do add value in their routes for our clients.

We have, therefore, now 18 airline partners, and they are all integrated in the system. So, when I go on to slide six, I believe this is the greatest leap that Smiles has done in the last years, which is the implementation of our smart calendar.

This is the only smart calendar that has so many airline companies in the world. Usually, all our international competitors work with smart calendars, but they are limited to their operation. And this has taken a long time to implement, because we are speaking of 18 airline partners.

And our smart calendar, additionally, has a one month period, and it highlights the best opportunity for our clients Clube Smiles and Diamond, and everything is integrated. This has a lot of interactivity, and our clients are presented with the best options, in a very transparent way, and a very easy way.

As a result of the implementation of the smart calendar, we can see that in July we have had a growth in the redeemed miles. We are speaking, in July, of a growth by 13%. This is definitely the main reason for this increase, this smart calendar.

Going on to the next slide, we have also a partnership with SulAmérica for travel insurance. Our business focus is a lot on tourism and entertainment, and therefore this is the only insurance that we intend to work with, because it is part of the travel package of our clients, and it is already in operation.

We also implemented, in an exclusive way, an operation with Ingresso Rápido, which was announced a couple of months ago. It is an exclusive agreement, Ingresso Rápido has 70% of the Brazilian market for selling show and theater tickets, entertainment in general, and with this we have this unique partnership that definitely adds to our strategy of being a complete company, a marketplace for tourism.

I will now turn the floor to Marcos, so we can have more time for questions and answers. I am here, and I will be available in a minute.

Marcos Pinheiro:

Thank you, Leonel. Good morning, everyone. Going on from slide nine, we can see the accrued miles in the quarter. We totaled around 25 billion accrued miles in the 2Q18. This has a development of 12% compared to the last period, and 22% in the same period of last year.

Going on to slide ten, we have the total gross billings, which is the redeemed miles. We had a positive development in the indicator, so you can see that in the 2Q18 this totaled 19 billion miles that were redeemed in the period, an evolution of 1.6% compared to the 1Q18, and 16% compared year-on-year. This reflects our engagement with our clients and our commitment to be an easy company to redeem miles.

Going on to slide 11, we have the main highlights, which impacted the total gross billing here. We arrived at the 2Q18 with around R\$552 million in billings. This is a positive development, an up by 8.8%, and 19% year-on-year.

On slide 12, you can see net revenues for 12 months period, and this mirrors a consistent development of our businesses. When we compare accrued revenues in 12

months with the 2Q18, you can see a positive development of 1%, and 8.8% year-on-year.

A major highlight I would like to give you on slide 13 is the balance of differed revenue. This business is the result of accrued and redeemed, and mirrors the future results. In the 2Q, we ended the period with around R\$1.5 billion in differed revenue in the balance, and this shows a positive development, which is being consistent throughout the Company's lifetime.

And when we look at these three figures, the figures on slide 14, which is our direct redemption margin, you can see that we are stable in our profitability. In what we call the spread between the revenue and the cost of redemption, we can see that we have perspectives that are positive for the development of the business.

That is, the Company has grown, the efficiency of this growth has been tainted into results, it has not suffered significantly, even though we have been undergoing very controversial periods, such as this quarter in 2018, where we had the impact of the World Cup and a series of other things in the macroeconomic context, and this will be overcome shortly.

On slide 15, I would not say this the villain, but it is the responsible for the consistent questions and financial impacts in the results for the quarter, which is the breakage rate. For this quarter, the breakage rate dropped around 18%. It was 19% in the 1Q18, and, in addition to the drop, and we can give you more details in the question and answer session, we had other effects that made the breakage rate to be severely affected in the quarter. This indicator has negatively influenced the result of the quarter.

On slide 16, we have net income, as Leonel said, of R\$114 million, and net income is not a figure that the Company's management is pleased with. We acknowledge that we have a lot to do, however this number still has a result of -26% from the 1Q, a drop in the first period as well, compared year-on-year.

This our last slide for the presentation. I would like to thank you all in advance, and I would like to now open the questions and answer session, so you can make your questions that you require.

Lucas Barbosa, Morgan Stanley:

Hello. Thank you very much for the opportunity. I have a couple of questions. The first one is on the price per point, that dropped 3% compared to the 1Q. Because of the exchange, and since you still have the price attached to the USD, we thought this would increase the average price. Has there be a change in the policy of bonus points? And what have you done in this period? And for the future quarters, what would you expect? This would help as well. And then I can make other questions.

Leonel Andrade:

Hi, Lucas. Thank you very much for your question. No, there was no change in policy for pricing. What happened was that June was a very stronger month, there was a lot of migration, and this led to a leap in the banks. We kept the bonus levels that we have been practicing in the previous quarters, and the same policies. The contracts and agreements have not been changed.

What happened in terms of the USD is that all our contracts are in Reais, because we negotiated for the period in terms of volume. What surprised me a bit was that there was an accelerated growth, more than we expected, because what we noticed was that competitors stepped back in the quarter.

Of course, I do not have figures for everybody, but competitors left; mainly, they left the banks. Therefore, we will probably be seeing this in the future, still. Therefore, there is no new policy.

I do believe we will recover, I believe that we are at 0.22 level, and we want to reach 0.23, 0.24 for the next periods. This is our policy, this is what will happen, even though if we decrease the incentive.

But this is a clear opportunity for us to consolidate our leadership, consolidate the market, because we will have more clients. And that is happening, and now revenue has grown, because the redemption comes shortly after, as a consequence.

On the other hand, what puts us in a comfortable position is that our margin is still within the expected rate. Every year, every quarter we have a question about the margin, and the margin is maintained, and in this quarter it is over 40%.

I hope that I answered your question.

Lucas Barbosa:

Yes, Leonel. Thank you so much.

My second question is on the guidance for 2018. You did not mention anything in the guidance, so I would assume that you are keeping it. Is this it?

Leonel Andrade:

Yes. All the guidance disclosed two or three months ago, it is the same one for the year, and we are focused and we are sure that we will deliver the year according to the guidance; equal or better. The guidance is the same.

Lucas Barbosa:

Thank you, Leonel. And my last question, as Marcos mentioned, someone would like to make a question about breakage, and this is my last question, on the breakage, R\$35.8 million, which is lower than the 1Q and last year. I understand that this has been influenced by the redemption, but were there any other effects that went into the breakage calculation for the quarter? And what are the levels for breakage for the following quarters of the year?

Marcos Pinheiro:

Thank you for the question, Lucas. This is the one I was expecting. This indicator is very relevant when we look at the composition of the result of the Company. Your first question does make sense, but there are things that have worked to result in this weak breakage rate for the quarter.

In general, there are three major variables that give us this breakage rate. The first one is the speed in terms of acknowledgement. We see that the effect this quarter was marginally negative, so it did have a negative effect.

The second variable that contributes to this is the expiration rate in terms of the mileage that could expire, 18% that we disclosed. This rate dropped. To give you an idea of the figure, so you can study in your model, as we have done with other analysts, if everything remains the same, every percentage point in the variation in this rate, for the breakage rate observed, should contribute to a change in the level of revenue around R\$10 million to R\$12 million. So, every 1% in rate, R\$10 million to R\$12 million in revenues, considering everything remains the same. But this is just a calibration model.

And additionally, the third effect, which has a very significant weight on the estimation of the breakage rate, is the unit price for the passive, liabilities. This figure is more difficult to observe, but you can imagine the following: our differed revenue passive, in terms of the passive breakage rate, has valued by the weight average of the 36 months of billing. So we take all the mileage that were sold at R\$3.36, or R\$3.50 in 2016 or 2015, and we start changing these for the ones that were sold at R\$2.20.

And when we do this combined effect, we notice that we see that the fair value for redemption, the unit value for the mileage redeemed has dropped significantly, and we expect a downward trend for the following quarters. But this variable alone contributed to R\$18 million in the fall, in the drop of the breakage rate for the quarter.

So there were three major effects, as I said. We had one that was marginally negative in terms of recognition and knowledge, then we had R\$10 million to R\$12 million in an isolated effect because of the rate itself, and then around R\$20 million because of the unit price falling.

What would be our normal level for breakage rate? We have had this conversation, and we had it last quarter, but this 2Q we had a lot of expiration of miles, because GOL had a very strong campaign to requalify its clients. We did a disclosure of this in shareholders' meeting, in public meetings, and the effect was around R\$18 million to R\$20 million of extraordinary effect because of this campaign that took place last year, and the miles expired in the 1Q18.

So if you look at the results of the 1Q as a breakage rate, if you take R\$20 million from it that were exceptional, you would have, more or less, a level that we should observe in the indicators that make the breakage rate, offsetting unit price, the rate, and the speed of acknowledgment.

Therefore, when we see the breakage rate around R\$60 million per quarter, it would be consistent with the estimations that we did in the model that we have been discussing.

In fact, in Smiles we have a commitment to improve the way how we calculate these estimates in the breakage rate. It is a projection that we do, and the methodology that has been used is a methodology that was standard for the industry. Let us look at the last 12 months to calculate the breakage rate, and let us apply it. This may not be the best methodology, or the methodology that generates the least volatility when we look at this.

Annually, we have a process of reviewing this methodology, we have until the beginning of December to do this work with our auditing team, with our accountancy and our third-party advisors, and I believe we will develop to something that will be less volatile than the current model.

If we look at our local competitors, our main competitor here has changed from the traditional methodology that applies to us. They have changed, and they have a more actuarial methodology. I am not sure if this is the path we will follow, but we acknowledge humbly that we have room to improve in the way that the estimate is calculated.

I hope I have answered your questions. Please, make any follow-up questions you may need.

Lucas Barbosa:

Thank you very much for the answer, Marcos.

Alexandre Spada, Itaú BBA:

Good morning, everyone. Thank you for taking my question. Obviously, I would like to discuss the breakage rate, and Marcos has made it very clear; I would also like to hear about unit price, but I have two other questions to explore the topic.

First of all, I know that Smiles recently has had a new round of strategic planning for the next five years. Leonel, if you could comment on this and give us a general line on the decisions that were taken in this round of strategic planning.

And, within this context, I believe that it is part of your planning, if you could comment on the initiative to go to Argentina, that would also be interesting for all of us.

Leonel Andrade:

Spada, thank you very much for your questions. In fact, we do have a new strategic plan. It is done every five years, it is quinquennial, and it restates our businesses in terms of entertainment, tourism and trip. We will not look to anything this core, such as retail or other opportunities to explore our base that do not relate to these products.

Therefore, we have a plan that has its target on sustainable growth for the next five years, and I would say that it is reasonable to assume that this plan will lead to a growth by 15% a year, bottom line.

And this plan also assumes that we are reinforcing our core, everything that has made Smiles to date, such as increasing airline partnerships, Smiles Club as priority, and banks, of course.

And all the investments in the Voyager's Universe. We want to be a complete marketplace, with car-rental, Uber, tickets, hotels, everything related with the trip.

I have a comment on this: last year this represented 0.6% of our revenues, around R\$13 million, and this year we believe that we will revenues in terms of this of R\$60

million to R\$70 million, which is a leap of 6x the amount of the previous period. Therefore, we believe that this will gain in relevance. We continue growing in this area.

The third part of the strategic plan is expanding internationally, and that is why we started with Argentina. We have executives that are living in Argentina, we have started hiring and recruiting professionals for Argentina; we have agreement with local agencies and banks, but we do not have the company there yet.

The company is being open there. Just like in Brazil, Argentina also has a lot of red tape in terms of opening a Company, but we believe we will be operational at the turn of the year, with revenues as well coming on the end of the year. And we are very optimistic, because there are signed agreements, and I cannot, of course, offer details on this yet.

The priority for 2019 is the implementation and consolidating the operations in Argentina, and going on to another country, because in our mapping we are looking at international growth. There are two or three next steps that have been reasonably defined, but we will only give information on this timely.

And fourth, there is another business that we are discussing, still not signed, but we will have a strong initiative for Smiles that I cannot give details yet, but it is also related to tourism and entertainment. But it is not an M&A, by the way. And there is not to date any M&A on our radar, or any acquisition.

Smiles has a very strong operational efficiency, and we do not see any targets that would improve this efficiency. Or even, it might risk it.

I hope I have answered. There is a PMO, and the Company is very much focused on delivering it.

Alexandre Spada:

Thank you very much, Leonel. In general lines, you have given the answers that I was asking. Thank you for offering more details for future forums. Thank you.

Samuel Alves, BTG Pactual:

Good morning. First of all, I have two questions, actually. The first one is a follow-up on the breakage rate that has been addressed. One of the reasons that Marcos said was the speed of acknowledgment. Could you say more on this? Maybe on the reasons why there was a drop in the redemption curve? The effect, will it be non-recurring, or will it be recurring? Especially because of the cost of the international, that now is more heavy for the participants in the program. Thank you.

Leonel Andrade:

Thank you, Samuel. I will start with your second question, on the issuance of tickets, and the drop in the issuance of tickets. First of all, I would like to make clear that we have issued an average of 15,800 tickets, almost 16,000 tickets a day. This is a higher than the 1Q, and it is higher than last year.

There was a change here. There was a growth in issuance for growth in the domestic market, and a drop in the international market. The drop in the international market is related to the USD, to the exchange rate changes, and we incentivated, according to our clients demand, the domestic market, where we at a competitive advantage.

An important data is that we had a strike of the truck drivers, the increase in exchange rate, and the World Cup. Just to give you a number, the 16,000 tickets that I have mentioned, in the strike we had 9,000, and in the World Cup we had 10,000 a day. This, of course, is an impact, but it is over and done with.

In July, we are optimistic, because emissions have increased 13% in terms of revenue for miles redemption. This is now growing again, and it will continue to grow. Because of this differed revenue, and the billings that are coming in, we will have a strong growth in the redemption revenue.

I recall that in 2015, 2016 that questions that were related to us were the same, “why the volumes are falling?”, “why is this lower to the industry?”. Because our revenue is growing a lot and the market did not have very good events, such as the very strong recession that we had. But with this revenues, with the differed revenue growth, we see that the redemption revenues will also grow, and our Company is directed to this, especially through usability, and making it easier for the clients.

I believe this is not a good result, although we increased in terms of issuance of tickets. I restate that our Company is healthy, and we have very positive perspectives and outlook for the future.

Marcos can give you details on the breakage.

Marcos Pinheiro:

Thank you, Samuel, for the follow-up. Let me try to give you more flavor on this. As Leonel said, the redemption level was lower than what we expected, especially because now we have to go against the current in this sense.

And this is because we have to offset the macroeconomic scenario that you are aware of, probably better than we are, and we have to offset a dynamic price unit that is dropping, and we have to also offset a strong change in indicators. GOL has helped a lot in this.

Therefore, there are many challenges. Obviously, this will affect the breakage rate. What should we expect? How will this variables impact our estimates methodology is difficult to say.

As I answered Lucas’ question, I said that we imagine that we will see variations in terms of rates, but not at a very high level. And we have another variation that we will be expecting, which is in burn/earn.

It is difficult to give you a precise figure or a lot of clarity. I acknowledge that myself and my IR team want to improve the disclosure that we do in terms of this important component of our results, but in the following days we will offer you some material in our IR website, so you can model better this business.

But if you need guidance, what I can say is what I said in the beginning: if things remain the same, the breakage revenue level around R\$60 million is reasonable. We do not expect a lot of change.

This quarter has called our attention on how volatile the results can be. My financial team has been doing and studying a lot in the breakage material, but we do not expect any surprises in the following quarters. This is what I have to say.

Samuel Alves:

Thank you, Leonel and Marcos. This is very clear. Just a last question, if you allow me, just adding to Leonel's comment. As there are no M&As in course at this moment, could you give us an update of what the Company's Management will recommend to the Board in terms of dividend payout or other opportunities that may be discussed?

Leonel Andrade:

Thank you, Samuel. Let us break down your questions. With the strong growth in cash because of the increase in billings, and because there is not an M&A, we will definitely propose the full payout of dividends, but it will be discussed at the right time. This is what the Company's Management will recommend. Of course, it is not certain. It is a proposal, and it will be discussed timely.

The second part of your question, could you refresh my memory?

Samuel Alves:

This is it, actually, Leonel. If you were examining any terms in dividends payout with GOL, will you anticipate purchase?

Leonel Andrade:

This is a subject that always comes up. GOL is at a very good moment in terms of cash management. Of course, I cannot say in the name of the entire Company of GOL, but everything is going on according to what we expect, and there are discussions going on. Maybe a definition may come, but there is nothing really significant in terms of financial volume. So this is still open.

Samuel Alves:

Thank you very much, Leonel. Good morning everyone.

Carlos Daltozo, Banco do Brasil:

Good morning, everyone. Thank you for taking my question. Most of my questions have been answered. So just a follow-up on somethings that you said, concerning when you accumulate miles, especially the average price, you said that this is very strong. Could you talk a little bit more about your competition?

You said that there was a strong volume from the banks, especially in June. And how is the pricing of the banks? What is the discount for the average volume? And then I will make my second question.

Leonel Andrade:

Thank you for your question. Because we maintain a sustainable margin for the future, and because our growth is very strong and consistent, I believe that we will probably start recovering prices. We will not change the Company's trajectory; we will not do an erratic movement. I think the worse thing in retail is drastic change. This is not where we are going into. We are going to maintain our trajectory and our margin will continue to be positive and at the adequate levels.

There are no changes in the price with the banks. The prices are healthy, and what causes the ups and downs in prices is the incentive bonuses campaigns, which will now start working on to recover. We are now at 0.22 and we will move on to 0.23 with no drastic movement.

I do not remember if we have talked about it and when, but to give you an idea of the figures, Smiles today, from the total revenues, 40% comes from the banks. That was the figure that closed last quarter. And this includes co-branding. In all banking products we have 40%. Therefore, 60% is with other partners, and mainly with natural person, and that is how we started.

Five years ago we were the first ones to do this in Brazil, so our management ability is much stronger, and we are less dependent, but this does not mean that we are going to change our relationship with the banks.

We are going to still reinforce this relationship with the banks, we will continue working with them and promoting our clients at banks, because the banks are essential for our business.

I would like to highlight what the rest of the business has developed. Yes, that is true, and this shows that we have a very bright future in our outlook.

Carlos Daltozo:

Yes, definitely. How about Clube Smiles? Could you say how much this represents in terms of revenue?

Leonel Andrade:

We cannot do this at this time.

We took five years to take and give you the volumes in terms of banks. It will take more or less the same time to answer this about Clube Smiles.

Carlos Daltozo:

Another follow-up on your strategic planning, when you spoke about the bottom line growth: could you say more? What are the main points that will lead to this growth? And what can you do for Smiles not to mature?

Leonel Andrade:

Thank you for your question. I think we should do different things, and because we are guided by innovation we will continue to do so. For example, the smart calendar means to improve usability, and we have a series of other initiatives, such as internationalization, and this avoids maturation. We have are growing the Universe of the Traveler, but we have other actions that I cannot speak of now, because we have to protect this information from competition.

So, we believe that we do not want to mature. This is the focus that we have. For example, I was very excited by the growth of differed revenues. We had an important differed growth to look at the future, and that is essential for business. If revenues are not growing, this means that a Company wants to reduce its size in the future, and that is not our case.

From last year, we have R\$155 million more in terms of differed revenue, and today it is R\$1.5 billion. Therefore, this will realize at some point.

I want to grow revenue and not redemption. I want to preserve our future and preserve our margin, and therefore the future will be bright. I believe we are on the right track, and you should expect a lot of innovation, a lot of projects, new markets and other partnerships.

Carlos Daltozo:

Thank you.

Felipe Vinagre, Credit Suisse:

Good morning everyone. All my questions have been answered, but I have two follow-ups. The first one is on cash and dividends: I would like to understand why not discuss a buyback, because of the price. You mentioned the possibility to indicate the payout of dividends, but why not to access a possibility of buying back?

And the second follow up would be on Argentina. You provided a lot of details on what you are doing there. I would like to know if you have an expectation on when revenues start. Is it in the 2H or next year? If you have a target for revenues that you can share.

Marcos Pinheiro:

My first point on buyback, and Leonel is also here, I will be very clear: we are discussing this. It is important for us to be very transparent with you. We are looking at all the opportunities on the allocation of capital at Smiles. This is an ongoing conversation, so we have at the Board, shareholders and managements. This has been discussed, and if we had anything final we would announce.

And in terms of price, the shares have suffered, and this, of course, has a lot to do with the lower value of the Company, but this is an opportunity and we will decide this timely.

I will give the floor to Leonel to speak of Argentina.

Leonel Andrade:

On Argentina, we believe that at the turn of the year we will start revenues. It is very difficult to say because of operational issues. We had a Board Meeting, we showed the plan for Argentina, there is a scope for the next step, so we expect that at the turn of the year, between December and January, we will start having local revenues.

I reserve the right not to speak of guidance at this moment, but we are well advanced, and we are looking at the local banks. This is a blue sea for us. The competitors that we are speaking of, Aerolíneas Plus and LATAM, that has a similar value proposition, but we are the only ones that intend to do coalition.

LATAM has an exclusive bank agreement with a local bank, and this frees the rest of the market. Aerolíneas has some agreements, but because they are a very major company, almost a local monopoly, this give us some opportunity. And we are partners at Aerolíneas, and we are looking at the entire business.

I have been visiting the banks, I will go to Buenos Aires again and we will start operations very well, and I am sure everything will work out. Next year we will have revenues from Argentina, and this will start at the turn of the year.

Felipe, let me just add something else. What Marcos said on buyback, this is happening, and it is our obligation to discuss it. The Company has a depreciated price. For example, I bought Smiles' share, and I believe that we should make public that the Board approved stock options program for its executives, and this is for statutory. It will be opened, it is a very strong program that follows through with a strategic plan that ends in 2022, and includes 2018.

So I believe that the Company's executives are very well encouraged and maintained, and myself included, especially to reinforce this plan, because stock option plan is very aggressive and positive.

Felipe Vinagre:

Thank you very much. In terms of shorter term, the redemption has grown, but less than expected. The question is: has July shown any kind of change? How are you seeing this normalized in the next month?

Leonel Andrade:

Atypically July was the best month, and usually this is not what happens. Usually, we have months, such as May, when people start issuing tickets for the middle of the year. But in July we had the highest number in redeemed miles, tickets issued, and redemption revenues.

We closed the month by growing 30% in our redemption revenues, and I can say that July revenue were around the proportion of growth levels in the 1Q. We are growing in billings above 50%, and revenue is very strong.

So, I think life will be back to normal in terms of redemption level. We will be working well and implementing new products, and the smart calendar is totally focused on this,

so we will bring the levels back, and, of course, because of the differed revenue. The clients have lots of miles to redeem.

Felipe Vinagre:

Thank you all.

Victor Mizusaki, Bradesco BBI:

Hello, I have two questions. The first one is on the smart calendar. What can we think about this tool? And in terms of the redemption revenue, can this help the redemption margin directly?

And the second question concerns the potential of buying back. When we look at the Smiles balance we have R\$400 million in capital reserves. With a buyback, or maybe a special dividend payout, considering that in the 2H you will have no M&A, would we think of a level of R\$480 million, R\$500 million? Thank you very much.

Leonel Andrade:

I think this is too early to say, because we only have been operating the smart calendar for one month. We try to measure everything, of course. The volumes are growing, and the calendar is essential for this growth.

How does this calendar work? The main thing for us, I think the main success of the Company is to know how to price and revenue management, which is to put the good clients in that plane, in that product that has the best margin for us, because the dynamics of air ticket purchases favor us a lot in terms of redeems with lower rate. And that is the best client for us, and the smart calendar helps us by doing that.

The smart calendar makes clear for the client all the advantages that he or she has of the new opportunities, of cheaper opportunities for buying tickets, and transparency, but I do not have figures at the time, because it is a brand new thing.

But it is one of the major steps that we have, such as Amadeus that we implemented in the past, and our app, which is the only one that is integrated to the airline companies. The app accounts for 30% of tickets redemption, and that is how our client experience improved, and it has attracted many businesses and many clients.

Victor Mizusaki:

Just one thing: when you look at this scenario where you put the clients on a flight that is more interesting, would it make sense to consider that this tool may help increase the direct margin of redemption?

Leonel Andrade:

Yes, Victor, it could. According to our guidance, the margin is around 41%, and it may improve, but we expect the margin to be at the same level. The margins will not drop, we can say this for the next quarter, I can say this on a yearly basis, but our margin is sustainable at the current level, and the smart calendar will help to sustain it.

We do not have a goal of increasing it, but we are making large efforts not to drop. It may increase a bit, but the most important is for engagement rate to increase, because our margin is very comfortable.

Marcos Pinheiro:

Concerning the buyback, it is a bit premature for us to give you more details. The discussion is ongoing, and we are still working on it. As part of the management, I would love to be able to do this, of course, according to the legislation.

But this has to take into account many variables, the Board, the shareholders, our cash projections. It is very premature to say anything in terms of buyback.

And, as Leonel said, we will be discussing this seriously, and we may have some news in the future.

Victor Misuzaki:

A last question concerning this: would this decision take place this year or only next year, when the payout is decided for 2018?

Marcos Pinheiro:

This decision could come this year, but I would not say that it would take place next month or in the next three months. Discussions are constant, and they take place at our Board meetings. Therefore, if we have the market condition, they are the main variables for us to do something or do not. But I would not say that we have a date. What I could say is that it is not final that it will only be decided next year. It may take place before that.

Matthew Fallon, Deutsche Bank Securities :

Could you put a number to the opportunity in Argentina? You said something around 15% to 20% of the Smiles business in the future. Is that still the case?

And the second question is about the partnership with Uber: has the number of transactions exceeded your expectations?

Leonel Andrade:

Thank you very much for your question. Concerning Argentina, we have made a projection for 15% to 20% in the past, but I just want to clarify that this projection was more related to the internationalization with the main focus on Argentina. I believe that we continue with the same trend, we will be looking at this Company again in five-year time and Argentina will represent 15% of our revenue.

So I think it is too premature, because the operations are still to start, but I believe this is viable, because the Argentina market accounts, in terms of credit cards or aerial market, around 25% of the Brazilian market. Therefore, it is worth to say that in a five-year period this will account for 15% to 20% of the Brazilian operation.

On the second question, on Uber, I cannot give you the figures, but because we are alone in this market, we are the single players, we have exclusivity in terms of Uber and mileage, and this is very important. Uber is the owner of the market, it is a main player, and this has grown a lot, very much. And it contributes to engagement, and is also increasingly contributing to revenues.

It is clearly beyond our expectations, and it has generated a volume of transactions that is very significant. It is too early for us to disclose, maybe in a couple of quarters I will give you more figures.

This movement is favorable to us, because the competition, Cabify has announced that they will not do this incentive with our competition. So we are solo players, and we are very thankful for this.

And I hope I have answered your questions. Thank you.

Operator:

The question and answer section is now closed. We would now like to give the floor to Mr. Leonel Andrade, so he can provide his final remarks.

Leonel Andrade:

Because of the time I will be very brief. I would like to thank you all very much for your questions, for the interaction that we had, for so many questions. I hope I have clarified, and I would like to highlight some points.

First one is that we did not like the results for the quarter. That is essential for you to know. We as the management are not pleased. We can and will do better. This explains, of course, but does not justify it.

I would like to say to you that the Company has 118 employees. M&A is not part of the outlook in the short term. Stock option, as I have said, has favored, and has shown the stability of the management, and the commitment to be in this Company in the future, and our investment remains according to our strategic plan. A Company that is focused on entertainment and tourism, and which is easy to use.

We are facing a challenge now for a period, but we are sound and confident in our ability to deliver results according to our commitment. Therefore, thank you very much, thank you too all our colleagues, our clients, and I am available. You know where to reach me. Thank you very much.

Operator:

Smiles' conference call is now closed. Thank you for taking part, and have a good day.

Conference Call Transcript
2Q18 Results
Smiles (SMLS3 BZ)
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