

Barueri, October 29, 2019 – Smiles Fidelidade S.A. (B3: **SMLS3**) one of the largest loyalty programs in Brazil with over 16 million members, announces its 3Q19 results. The financial and operational information in this report refers to the consolidated results of Smiles Fidelidade S.A. and is presented in accordance with IFRS and in Brazilian Reals (R\$), except when indicated otherwise. Percentage variations may use more decimal places for the calculations than shown in the document and are in comparison with Smiles Fidelidade S.A. numbers.

Smiles Fidelidade S.A.

B3: SMLS3

Novo Mercado

Price: R\$ 37.23

No. of shares: 124,158,953

Market value: R\$ 4.6 billion

(close: 28/10/2019)

www.smiles.com.br/ri

3Q19 Conference Call

October 30, 2019

In Portuguese and English:

(Simultaneous Translation)

11:00 a.m. (Brasília)

10:00 a.m. (US EST)

Phone: +55 (11) 3181-8565 or

+1 (412) 717-9627

Password: Smiles

[webcast \(Portuguese\)](#)

[webcast \(English\)](#)

SMILES CONTACTS

André Fehlauer

CEO

Marcos Pinheiro

CFO

Maria Laura Pessoa

Investor Relations Manager

ri@smiles.com.br

Gross Billings amounted R\$ 633.7 million in 3Q19

HIGHLIGHTS

- ✓ Total Gross Billings amounted to R\$ 633.7 million in 3Q19, an increase of 7.7% compared to 3Q18.
- ✓ Net Revenue reached a new record, totaling R\$ 279.3 million.
- ✓ Direct Redemption Margin reached 38.4% in 3Q19.

Main Highlights	Unit	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Total gross billings ²	R\$ mn	633.7	684.3	588.4	(7.4%)	7.7%
Net revenues*	R\$ mn	279.3	278.0	263.3	0.5%	6.1%
EBITDA ¹	R\$ mi	205.8	180.4	231.3	14.1%	(11.0%)
<i>EBITDA¹ margin</i>	%	73.7%	64.9%	87.8%	8.8 p.p.	(14.1 p.p.)
Net income	R\$ mn	149.6	155.7	212.1	(4.0%)	(29.5%)
<i>Net margin</i>	%	53.5%	56.0%	80.5%	(2.5 p.p.)	(27.0 p.p.)
Net Income (ex-extraordinary)**	R\$ mn	149.6	155.7	153.5	(4.0%)	(2.5%)
<i>Net margin</i>	%	53.5%	56.0%	58.3%	(2.5 p.p.)	(4.8 p.p.)

1. EBITDA is not an accounting measurement elaborated by the Company, reconciled with its financial statements. The EBITDA is composed by net income attributable to the Company's shareholders, added by net financial result, income tax and social contribution, and expenses related to depreciation and amortization.

2. Gross Billings is not an accounting measurement and corresponds to total sales revenues for miles and the cash portion of Smiles & Money, gross of taxes. These billings may have affected the current period or will be recognized as revenue in future periods, depending on the date of redemption by the program members.

*Considers the new accounting presentation IFRS 15

** Excludes the extraordinary effects of the 3Q18.

Message from Management

In this quarter, we continued to expand our business. We are committed to increase the engagement of our more than 16 million customers. The 3Q19 result was marked by record net revenues of R\$ 279.3 million, an increase of 6.1% compared to the same period last year. And despite the challenging scenario – of higher yields and occupancy rate at Gol, our main partner - Smiles recorded an excellent redemption revenue, with a 12,6% growth compared with the same period last year, which demonstrates our customer base engagement.

Smiles' loyalty model remains focused on travel experiences, and we are delighted to have delivered to our customers over 1.2 million airline tickets, 120,0 thousand hotel bookings and 120,3 thousand car rentals in this quarter.

Gross revenues - a traditional indicator of the trend and magnitude of revenues generation in the coming periods - grew at a pace of 7.7% over the same period last year, totaling R\$ 633.7 million. The quarter was also marked by an intensification of the industry's competitive dynamics with other relevant players using promotional campaigns offering bonus for miles accrual as well as much lower fare prices for product redemption than in recent periods. Notwithstanding, our flexible business model allowed us to quickly adjust the operation. In the period, we used several business levers, but the use of certain communication channels, a different mix of premium redemptions and the dynamic pricing of the redemptions were the main factors responsible for maximizing our revenues in the quarter.

In the year that we celebrate our 25th anniversary and Smiles firmly follows the strategy of both diversifying its business and launching new products. We highlight the launching of Club Smiles 20,000 and the 25,000 Club, both of which allow an upgrade in category of the loyalty program or access more benefits even in its current category.

In addition, we celebrated the expansion of our partnership network launching an exclusive relationship with Nubank. Points earned on Nubank Rewards - Nubank Credit Card Loyalty Program - can be transferred online to Smiles.

We have also launched Radar Smiles. With the Radar Smiles feature it is possible to monitor real time ticket fares evolution of all our airline partners in a simple and easy way, directly through our app.

The Company follows its DNA of being a lean and agile company with its 136 employees.

Financial Performance

Financial Information Summary	Unit	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Gross Billings¹	R\$ mn	633.7	684.3	588.4	(7.4%)	7.7%

1. Gross Billings is not an accounting measurement and corresponds to total billings from the sale of miles gross of taxes. These revenues may have affected the current period or will be recognized as revenue in future periods, depending on the date of redemption by the program members.

Gross billings: Total gross billings climbed 7.7% in 3Q19 compared to 3Q18's figure, mostly due to both our commercial partners and clients' engagement.

Revenue (R\$ million) *	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Revenue	672.0	651.8	591.0	3.1%	13.7%
Redemption revenue	590.1	587.2	524.2	0.5%	12.6%
Breakage revenue	76.0	58.4	62.1	30.1%	22.4%
Other revenues	5.9	6.2	4.7	(4.8%)	25.5%
Services Provide Cost	(367.1)	(346.4)	(304.2)	6.0%	20.7%
Airline tickets	(325.8)	(312.5)	(281.1)	4.3%	15.9%
Diverse Products	(41.3)	(33.8)	(23.0)	22.2%	79.6%
Gross Revenue	304.9	305.5	286.8	(0.2%)	6.3%
Taxes and Contributions	(25.6)	(27.5)	(23.5)	(6.9%)	8.9%
Net Revenues	279.3	278.0	263.3	0.5%	6.1%
Operational Costs	(19.4)	(21.1)	(14.8)	(8.1%)	31.1%
Gross Profit	259.9	256.9	248.6	1.2%	4.5%

*Managerial table in order to demonstrate revenues and costs related to redemption.

Net revenue: Net revenue was up 6.1% in 3Q19 compared to 3Q18, largely due to higher breakage revenues up 30% and 22,4%, in the 2Q19 and 3Q18, respectively.

Other revenues: Other revenues fell by 4.8% in comparison to 2Q19, reaching R\$ 5.9 million. This item is mainly composed by cancellation fees and Gol's loyalty program management fees.

Direct redemption margin: The direct redemption margin reached 38.4% in 3Q19, a decrease of 3.2 p.p. versus 2Q19 and a 4.1 p.p. drop in comparison to the same period the last year.

The direct redemption margin is not an accounting measure and it is calculated using only managerial revenues and costs directly related to miles redemptions, as illustrated in the table below:

Redemption (R\$ million)	Redemption Results ¹	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Revenue	> Net Revenue of Redemption (b)	596.0	593.4	528.9	0.4%	12.7%
Revenue		596.0	593.4	528.9	0.4%	12.7%
(-) Direct Taxes		-	-	-	-	-
Costs of provided services	> Redemption costs	(367.1)	(346.4)	(304,2)	6.0%	20.7%
(-) Cost with Redemption		(367.1)	(346.4)	(304,2)	6.0%	20.7%
(+) Credits with direct taxes			-			
Gross Revenue	Gross result of redemption (a)	228.9	247.0	224.7	(7.3%)	1.9%
(-) Interest over Spread		(21.2)	(22.9)	(20,8)	(7.4%)	1.9%
(=) Net Revenue	Net result of redemption	207.7	224.2	204.0	(7.4%)	1.8%
<i>% Direct Redemption Margin</i>	(=a/b)	38.4%	41.6%	42.5%	(3.2 p.p.)	(4.1 p.p.)

¹ managerial redemption results: Gross results of redemption consider other revenues related to redemption that are registered as "Other revenues".

Operating Expenses (R\$ million)	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Operating Expenses	(61.3)	(82.2)	(21.5)	(25.5%)	185.2%
Commercial Expenses	(31.3)	(35.2)	(28.4)	(11.1%)	10.2%
Administrative Expenses	(30.0)	(47.0)	(31.2)	(36.2%)	(3.8%)
Other Expenses/ Revenues	-	-	38.1	n/a	(100.0%)

Operating expenses: Operating expenses increased 185.2% compared to 3Q18 and decreased 25.5% compared to 2Q19. However, if we exclude the extraordinary effect in the same quarter of 2018 in the amount of R\$ 38.1 million, which refers to extemporaneous income tax, social contribution, PIS and COFINS tax credits, operating expenses were up just 2.85% versus 3Q18. In terms of composition, operating expenses comprise largely administrative expenses related to consulting and hiring of external advisors.

Other information (R\$ million)	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Net financial result	29.5	33.0	96.7	(10.7%)	(69.5%)
Financial expenses	(0.8)	(1.0)	(1.0)	(20.3%)	(21.7%)
Financial revenues	31.4	31.3	92.2	0.1%	(66.0%)
Net exchange variation	(1.1)	2.7	5.5	(141.3%)	(119.9%)
Income tax and social Contribution	(78.6)	(51.9)	(111.7)	51.2%	(29.6%)

Financial result: the net financial result declined 69.5% in comparison to 3Q18 figures, chiefly due to (i) the fall of the basic interest rate, (ii) the amortization of tranches related to the advanced purchase of air tickets with Gol that yielded a higher rate than the tranches that are still being consumed, and (iii) the negative net foreign exchange variation.

Net exchange variation: the negative result of R\$1.1 million in exchange rate variation is mainly caused by the effect of the local currency fluctuation in the *accounts payable* heading denominated in dollars and is related to the cost of issuing international air tickets.

Income tax and social contribution: The effective income tax rate was 34.5% in 3Q19.

Net income: Smiles Fidelidade's net income totaled R\$149.5 million in 3Q19, a 4.0% drop in comparison to the previous quarter.

Balance of advance to suppliers: the breakdown of the balance of *advance to suppliers* in the quarter is detailed in the following table:

Tranche	Contract	Data	Balance (R\$ Mn)	Rate (per year)
Tranche I	7º Contract	Sep-18	80.3	7.38%
Tranche II	7º Contract	Oct-18	267.8	7.39%
Tranche III	7º Contract	Nov-18	159.3	7.39%
Single tranche	8º Contract	Apr-19	104.5	7.39%
Single tranche	9º Contract	Jun-19	85.7	7.39%
Single tranche	10º Contract	Aug-19	109.9	7.39%
Single tranche	11º Contract	Sep-19	208.4	6.21%
Total			1,015.9	7.15%

Income Statement – IFRS 15

Income statement (R\$ thousand)	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Net revenues	279,330	277,963	263,348	0.5%	6.1%
Operational costs	(19,381)	(21,067)	(14,779)	(8.0%)	31.1%
Gross profit	259,897	256,896	248,569	1.2%	4.6%
<i>gross margin</i>	93.1%	92.4%	94.4%	0.7 p.p.	(2.0 p.p.)
Operating expenses	(61,295)	(82,234)	(21,491)	(25.5%)	185.2%
Selling expenses	(31,273)	(35,194)	(28,379)	(11.1%)	10.2%
Administrative expenses	(30,022)	(47,040)	(31,218)	(36.2%)	(3.8%)
Other expenses/revenues	-	-	38,106	n/a	(100%)
Operating profit	198,602	174,662	227,078	13.7%	(12.5%)
<i>operating margin</i>	71.1%	62.8%	86.2%	8.3 p.p.	(23.4 p.p.)
Financial income	29,461	32,997	96,681	(10.7%)	(69.5%)
Financial revenues	31,374	31,341	92,177	0.1%	(66.0%)
Financial expenses	(810)	(1,016)	(1,035)	(20.3%)	(21.7%)
Exchange variation, net	(1.103)	2,672	5,539	(141.3%)	(119.9%)
EBT	228,063	207,659	323,759	9.9%	(29.5%)
Income and social contribution taxes	(78,558)	(51,941)	(111,653)	51.2%	(29.6%)
Net income	149,505	155,718	212,106	(4.0%)	(29.5%)
<i>Net margin</i>	53.5%	56.0%	80.5%	(2.5 p.p.)	(27.0 p.p.)

Balance Sheet

Balance Sheet (R\$ thousand)	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Assets	2,630,350	2,476,578	2,577,469	6.2%	(3.91%)
Current	2,557,841	2,383,694	2,319,738	7.3%	2.76%
Cash and cash equivalents	20,980	14,396	227,051	45.7%	(93.7%)
Short-term investments	926,741	763,844	519,358	21.3%	47.1%
Trade receivable	434,910	461,780	351,048	(5.8%)	31.5%
Advances to suppliers	1,015,914	981,182	946,643	3.5%	3.7%
Recoverable current Taxes	-	22,617	-	(100%)	n/a
Recoverable Taxes	114,726	90,896	251,683	26.2%	(63.9%)
Other credits and values	44,570	48,979	23,955	(9.0%)	104.5%
Noncurrent assets	72,509	92,884	257,731	(21.9%)	(64.0%)
Judicial deposits and blocked escrows	16,294	18,514	17,834	(12.0%)	(3.8%)
Deferred taxes	-	-	-	n/a	n/a
Advances to suppliers	-	-	200,931	n/a	(100%)
Recoverable Taxes	6,208	29,900	-	(79.2%)	n/a
Property, plant and equipment	5,121	5,293	2,595	(3.3%)	104.0%
Intangible	44,886	39,177	36,371	14.6%	7.7%
Liabilities	2,630,350	2,476,578	2,577,469	6.2%	2.1%
Current	1,136,969	1,126,799	1,343,994	0.9%	(15.4%)
Suppliers	137,354	135,694	139,093	1.2%	(1.3%)
Salaries	16,607	13,210	20,570	25.7%	(19.3%)
Dividends and interest on equity payable	-	-	-	n/a	n/a
Current tax obligations	18,635	13,231	-	40.8%	n/a
Taxes Payable	8,339	9,314	-	(10.5%)	n/a
Tax Obligations	-	-	46,736	n/a	(100%)
Related companies	24,689	26,272	29,109	(6.0%)	(15.2%)
Advances from customers	10,746	11,409	287,557	(5.8%)	(96.3%)
Deferred revenues	916,007	911,676	818,291	0.5%	11.9%
Other liabilities	4,592	5,993	2,638	(23.4%)	74.1%
Noncurrent liabilities	331,449	337,909	242,418	(1.9%)	36.7%
Provision for legal proceedings	26,999	24,981	19,088	8.1%	41.4%
Deferred revenues	179,582	217,366	198,154	(17.4%)	(9.4%)
Deferred taxes	122,609	93,102	25,075	31.7%	389.0%
Other liabilities	2,259	2,460	101	(8.2%)	2,136.6%
Shareholder's equity	1,161,932	1,011,870	991,057	14.8%	17.2%
Capital stock	254,610	254,610	44,874	0.0%	467.4%
Capital To Subscribe	-	-	-	n/a	n/a
(-) Cost of issued shares	-	-	(1,107)	n/a	(100%)
Capital reserve	271,628	271,628	481,628	0.0%	(43.6%)
Profit Reserve	202,703	202,703	8,621	0.0%	2,251.3%
Equity Valuation Adjustments	(268)	-	-	(100.0%)	n/a
Additional dividends proposed	-	-	-	n/a	n/a
Share-based payment	4,018	3,246	850	23.8%	372.7%
Retained earnings	429,241	279,683	456,191	53.5%	(5.9%)

Statement of cash flows

Statement of cash flows (R\$ thousand)	3Q19	2Q19	3Q18	3Q19 vs. 2Q19 (%)	3Q19 vs. 3Q18 (%)
Net Income	149,557	155,718	212,106	(4.0%)	(29.5%)
Share-based payments	772	774	554	(0.3%)	39.4%
Deferred income and social contribution taxes	29,507	16,088	195,295	83.4%	(84.9%)
Provision for legal proceedings	5,556	4,022	5,043	38.1%	10.2%
Depreciation and amortization	7,176	5,753	4,222	24.7%	70.0%
Discounts in advance ticket purchases	(17,371)	(18,384)	(29,369)	(5.5%)	(40.9%)
Exchange variations, net	3,635	1,086	4,973	234.7%	(26.9%)
Reversal of (allowance for) doubtful accounts	(3)	(15)	(11)	(80.0%)	(72.7%)
Profit sharing	6,926	3,989	8,456	73.6%	(18.1%)
Write-off of property, plant and equipment and intangible assets	171	138	-	23.9%	n/a
Other Provisions	(619)	247	-	(350.6%)	n/a
Trade receivables	27,049	(105,881)	40,822	125.5%	(33.7%)
Advances to suppliers	(17,361)	101,151	(432,889)	(117.2%)	(96.0%)
Recoverable taxes	22,479	13,829	(251,683)	62.5%	(108.9%)
Other credits (obligations)	3,235	(18,313)	3,453	(117.7%)	(6.3%)
Suppliers	(1,006)	8,007	(10,673)	(112.6%)	(90.6%)
Salaries	(3,529)	(10,073)	270	(65.0%)	(1407.0%)
Advances from customers	(663)	(37,083)	235,445	(98.2%)	(100.3%)
Deferred revenue	(33,453)	38,348	5,332	(187.2%)	(727.4%)
Taxes obligations	(46,086)	28,629	73,942	61.0%	(37.7%)
Lawsuits and labor claims	(3,538)	(1,919)	(3,106)	84.4%	13.9%
Related-party transactions	(1,583)	8,980	13,630	(117.6%)	(111.6%)
Income and social contribution taxes paid	(41,657)	(32,515)	(43,419)	28.1%	(4.1%)
Judicial deposits and blocked escrows	2,220	(241)	(889)	1021.2%	(349.7%)
Interests Paid	-	-	-	n/a	n/a
Net cash flows from (used in) operating activities	183,586	162,333	31,504	13.1%	482.7%
Acquisition of property, plant and equipment and intangible assets	(12,693)	(3,287)	(6,898)	286.2%	84.0%
Short-term investments	(162,877)	(409,252)	(68,925)	(60.2%)	136.3%
Net cash flows used in investing activities	(175,570)	(412,539)	(75,823)	(57.4%)	131.6%
Share Capital	-	-	-	n/a	n/a
Capital Increase	-	-	-	n/a	n/a
Interest on equity paid and dividends paid	-	(424,200)	(9,088)	(100.0%)	(100.0%)
Net cash flows from (used in) financing activities	-	(424,200)	(9,088)	(100.0%)	(100.0%)
Effect of exchange variation on cash and cash equivalents	(1,432)	229	(841)	(725.3%)	70.3%
Net increase (decrease) in cash and cash equivalents	6,584	(674,177)	(54,248)	(101.0%)	(112.1%)
Cash and cash equivalents at the beginning of the period	14,396	688,573	281,299	(97.9%)	(94.9%)
Cash and cash equivalents at the end of the period	20,980	14,396	227,051	45.7%	(90.8%)

Business Model

Smiles started as a single loyalty program, but has evolved into its current coalition model, which features several unique characteristics that allow for the accrual and redemption of Miles from GOL flights and its international partner airlines, as well as Brazil's main commercial banks, including co-branded cards issued by Bradesco, Banco do Brasil and Santander, and a wide network of retail partners. The current model works through (i) the accrual of Miles by Members when they purchase airline tickets with GOL or other partner airlines, or products and services from Business and Financial Partners; Smiles Miles being acquired through the loyalty of these customers to those businesses, and (ii) Awards redemptions by Members when they exchange their Miles for flights on GOL and other partner airlines, or for products and services offered by Commercial and Financial Partners

The main sources of our revenues come from (i) redeemed miles revenues, represented by tickets and awards in its network of airline, commercial and financial partners, (ii) interest income between the date the miles were accrued and the date they were redeemed, and (iii) Breakage revenues if issued miles expire without being redeemed.

Glossary

Awards - Products or services provided to members by a commercial partner as the result of redeeming customer miles loyalty program.

Award Products - Product or service, excluding air tickets, provided to members by a commercial partner as the result of redeeming customer loyalty program points.

Breakage Estimate – Miles expired and not redeemed; it may be expressed as a number of miles, an amount in Brazilian reais or as a percentage of miles issued, depending on the context.

Burn/Earn Ratio - The ratio between the number of redeemed and accrued miles in a given period.

Free Float - Shares owned by non-controlling shareholders.

Miles - The redemption rights of Smiles Program members sold to commercial partners.

Smiles & Money - A means of issuing air tickets by combining money and miles.

Smiles Program - A multi-loyalty program for several companies, including GOL Linhas Aéreas Inteligentes S.A.

This release may contain forward-looking statements related to business prospects, estimates of operating and financial results, and growth prospects for Smiles. These are merely projections and, as such, are based exclusively on management's expectations for Smiles. Such forward-looking statements depend, substantially, on external factors and risks presented in the disclosure documents filed by Smiles, and are, therefore, subject to change without notice. Independent auditors did not review the Company's non-financial information. Some values from this report may differ from the financial statements due to rounding.