

**Operator:**

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the conference call of Smiles to discuss their earnings regarding the 1Q19.

Should any of you need any help during the conference call, please, reach the operator by pressing \*0.

We would like to let you know that some statements in this conference call may have projections or declarations about future expectations. Forward-looking statements are subject to known and unknown risks and uncertainties that may make these expectations not to become true or become differently from what expected. Today with us are Mr. Leonel Andrade, CEO; and Mr. Marcos Pinheiro, CFO.

We are going to turn the floor now to Mr. Andrade. Please, Mr. Andrade, you may go on.

**Leonel Andrade:**

Good morning, everyone. It is a pleasure to have you all here today. I am going to start talking about our operating earnings of this 1Q.

We started the year on a high note. In terms of highlights, going straight to our presentation, I would like to talk about our billings that increased by 23.4%, reaching R\$626.3 million in the quarter, a very high amount, way beyond our strategic planning that expected 15% growth.

I would like to highlight that the main gain from billings came from our relationship with banks. Banks is the segment that grew the most in the quarter, and, with that, most probably, we are going to have a strong gain of market share in Smiles.

In accrued miles, we had a 27.2% growth, reaching 28.5 billion accrued miles; again, very high. In redeemed miles, we had growth of 18.5%. So, the activity amongst customers is preserved and very strong. We total 22.4 billion miles redeemed, which is, again, an outstanding number, and probably that brings us a very positive perspective for the next years.

Billings are growing more than redemptions, so our deferred revenues grew about 11% compared to last year; we have R\$1.6 billion of deferred revenues, which is quite significant for the future.

Our financial results had a drop of 24.2%, more than expected, again, because of the macroeconomic scenario and the drop of Selic compared to the previous year. We had R\$34 million in financial results, and our net income dropped by 8.5%. Basically, we have a very strong activity, but a substantial drop in the segment as a whole.

I think the best comparison is going to be when we close the half year, because in the 1Q18 we had a breakage revenue of R\$90 million; and in the 2Q18 we had a breakage revenue of R\$ 35 million. So, we had some adjustments to make. You will remember that in the 2Q of the last year I said that our results were not satisfactory. So, when we compare the two quarters, that is the 1H of the year, we are going to have a better picture. And I am confident that the 2Q is going to be very strong.



April is closing as a very good month in terms of accrued and redeemed miles, very consistent revenues, so I think that we are going to continue performing well, and then we are going to have a better comparison in terms of breakage.

On the next page, I would like to talk about Argentina. As you all know, our expansion to Argentina was announced last year. It is a strategic pillar for our expansion internationally, and we believe that this expansion will account from 10% to 15% of our revenues in 2022.

And we have very good news from Argentina: we started the operation. It is structured, it is in place, it is already going on; Smiles is already operating for Argentinian clients in full speed; we have an accrued redemption system that is very similar to what we had in Brazil about five years ago; and now we are starting to diversify our portfolio.

I would like to say that we have just signed an agreement with Banco Patagonia and American Express; and now with Galicia Bank, the largest bank in Argentina, the largest issuer of credit cards, and it is incorporating Argentina's miles promptly.

Of course, you have a ramp-up in one or two months, but we are going to close the 1H19 with at least these three banks, and probably others. We are way advanced in negotiations with other banks.

We already completed portability, so Argentinian clients in Brazil can already migrate to Argentina. Today, we are talking about Argentina with more than 300,000 clients, and we are starting our diversification projects.

We implemented the Viaje Fácil product that is purchased without mileage for you to settle 60 days before the flight, as we have in Brazil. And, in the next months, we are going to have the Smiles Club in Argentina; and all the product diversification, buying miles, replicating exactly what was successful and that supports our operation in Brazil will be replicated to Argentina in the coming months. We are very confident that the operation is going to be way successful, so I would like to share this with you.

Now, I am going to turn to Marcos who is going to talk about our operating and financial numbers. Thank you very much.

**Marcos Pinheiro:**

Thank you, and good morning, everyone. We are going to follow the presentation on slide number four, with total gross billings in the Company. In the bars, you can see that in the 1Q19, the Company totaled R\$626 million in total gross billings, growth of 23% compared to the same period of last year, and, again, consolidating our leadership in the loyalty market in Brazil.

On the next slide, we talk about net revenues in the last 12 months. It is good to highlight that in the last 12 months we had growth of 7%, basically influenced by the breakage revenues.

If you take a look at engagement of our customers and redemptions, you can see the level of activity in the Company. Miles redemptions evolved positively year-on-year. This data, together with the data we show on slide number six, shows the Company's

capacity to manage its profitability in the short term. So, we have a direct redemption margin of about 41%, once again, showing consistency as we have been showing in all our talks with the capital market.

Going to slide seven, we show a bit of a historical series about the Company's net income. In the 1Q19, we totaled R\$142 million in net income, and here we had a evolution of -8.5% compared to the 1Q18.

But again, the highlight is that two items contributed to this. The first we already mentioned, the breakage revenues that were way below what we saw in the 1Q18, and also, the natural behavior of our financial results that are influenced, in addition to the drop of Selic, by the amortization of the tranches of anticipated purchases of air tickets. That improved our liquidity at higher rates than the market as a whole.

With this slide, I close our presentation, and thank you very much. Thank you.

**Victor Mizusaki, Bradesco BBI:**

Good morning. I have two questions. The first, if you could, talk about the competitive environment. Given the problem with Avianca Brasil, we have been talking about problems in the redemption of the Amigo Loyalty Program. So, what do you think of the competitive environment? What do you think it is like? Do you think, moving forward, it makes sense to accelerate promotions?

And the second question. This morning you launched a material fact about renegotiation of prices of tickets and mileage. So, I would like you to talk a bit about this material fact.

**Leonel Andrade:**

Victor, thanks for your question. Well, on the competitive environment, Avianca has very little impact because the Amigo Program, in our opinion, they did not have a partnership with Itaú Bank, for example.

We do not have many numbers, but any measurement that you make, they did not really pose high competition with Smiles. Probably it was growing, it could be something to threat us in the future, but at the point it was, it really did not bring any challenge to us.

So, for Smiles, Avianca is going to have better reflexes for the future because it is a high opportunity for GOL, and consequently, it will bring additional competitive advantage for Smiles with time. But today, very little impact.

As for Multiplus, I do not have much to say. We know that they went private, and they are incorporated their airline. Probably in the short term, we are going to be favored by that because we are going to gain market share in a robust way, significantly amongst banks.

I think there is a migration that continues to come from banks to us, but remember, we have a growth plan of 15%, we are growing by 23%, so we are really expediting our leadership, and that has been favoring us.

In the mid to long term, our strategic plans are saying what is going to grow. Last year, we grew above expectations, as well as this year. So, I do not think the competitive environment is a threat today.

As for your second question, we have public information from GOL. We released a material fact because it is our obligation to make our shareholders and the market aware of any fact that might influence their decisions of investments. But, up to now, we do not have any communication coming from GOL or its executives. We do not have anything.

We just got the public information that the Board of GOL authorized the executives to start discussing a possible change of prices in contracts. I think that Marcos can add to that, but, right now, this is what we have. We have not received anything.

Perhaps in the coming days, we might have something. We have a public commitment and whenever we learn, we are going to communicate promptly to the market.

Marcos!

**Marcos Pinheiro:**

Victor, just to add what was said, what happened indeed reinforces the importance of our purchase and sales ticket agreement with GOL and our operating agreement. We are going to follow just the usual routine on the day-to-day.

Our agreement, you will remember, we already talked about that, has the interest of balancing the relationship in between the two companies. As we receive more data about this potential readjustment of prices and the terms of this agreement, we are going to follow the due measures in the Company, following what we have been doing in the last seven, six years.

That is, our executives are going to do the math; we are going to present the results to our independent committee that decides on the relations with third parties. The committee is going to analyze everything in the agreement and will make a recommendation to the Board of Directors that will approve or not the request.

So, of course, we promptly communicated what is going on, but we do not have anything that might cause any concern to us or that points to a change in relationship; quite the opposite, reinforce our governance norms and working with our partner, GOL.

Just as a reminder, any discussion, any changes, remember that governance is preserved, Smiles has its independent committee. They are the ones that will make any assessment about related parties. This is a typical case, and the committee will make recommendations, "yes", "no", anything, and then the Board will make the final decision. Always following the rules of governance and with complete transparency.

**Victor Mizusaki;**

Just a follow-on regarding to that. Thinking about your agreement, Marcos mentioned the balance of the economic value in between the two parties. Thinking about any variables that might have triggered GOL's decision, can you think of anything? Is it

because of the industries, is it because of Avianca? Did it trigger the negotiation? Or you really cannot say much about that?

**Marcos Pinheiro:**

Victor, it is very hard to say something right now, because we do not have the information. The agreement is something that you know for some years now. It is based on keeping the parties in a balanced way in terms of their commercial relationship, and has to be done with the cost of opportunities of those parties.

N factors might have triggered an intermediate or extraordinary readjustment, but I cannot give you any information because I do not have it.

On our side, we can say that we continue with an expansion agenda, bringing in more clients, engaging more people, promoting our air tickets, consolidating the market. So, performing the strategic plans that we established about two years ago.

**Leonel Andrade:**

We do not have any concrete data. GOL did not send us anything in terms of tariff review. We have the public news, so we do not think it is fit to say anything now because we do not know the proposal or what generated this request. In practice, we have not got anything so far.

**Victor Mizusaki:**

Thank you very much. I have just one more question about Smiles Argentina. When we look into the growth of members and gross billings, you had strong growth in the 1Q year-on-year. I would like to ask you to give us some numbers with regards to Smiles Argentina. The operation started in February. I do not know if you can give us a bit of color on that.

And second about Argentina, do you think the program can eventually be seen as a value reserve and can the growth in Argentina come faster?

**Leonel Andrade:**

Victor, thanks for your question, again. The contribution of Argentina in the 1Q is immaterial. The operation started in the end of January, we already have some accrued miles; for redemptions, you first need accruals. Now, we are implementing Viaje Fácil, and that can implement, but the numbers are immaterial for results right now.

So, it is a beautiful opportunity. We are growing at this pace, 23% growth, without the contribution of Argentina yet. With the beginning of operation, it becomes more relevant, and that shows that we are performing quite well compared to our plans. Argentina is just an additional opportunity.

So, we are very comfortable that the operation there is going to be very successful, especially because Argentinians and Argentinian banks are quite receptive to us. Now,

we have the largest bank in Argentina as a partner, and this is a market in which you do not have clear, defined competition. You do not have a similar coalition program in Argentina, so I think it is perfect timing for us to seize future opportunities. But right now, it is not really contributing to our results.

**Victor Mizusaki:**

OK. Thank you.

**Operator:**

We are now closing our conference call, but before we are going to turn the call once again to Mr. Andrade for his final remarks.

**Leonel Andrade:**

I would like to thank you very much. And I would like to highlight that we continue with a very robust operation. The operation is better than expected. The results, in the beginning of the year, make us quite satisfied. We believe, once again, we are going to have a very strong year. This is the seventh year of operation with Smiles. We continue with very well-preserved margins, growing above our plans and above expected, above market prospects, gaining market share.

And we have to seize this environment that favors us. We are all very focused on that. We have a pipeline of innovation. In this quarter, we are going to have news of products and businesses. I want to make it clear, now we have 125 employees, and we are very focused on our operations and performance. I do not believe we are going to have any negative surprises for the near future.

The Company is always available for your questions. Thank you very much, and a very good beginning of year to everyone.

**Operator:**

The Smiles conference call is now closed. We thank you very much for joining us and wish you a very good day.

**Conference Call Transcript**  
**1Q19 Results**  
**Smiles (SMLE3 BZ)**  
**April 29, 2019**



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