GRUPO TECHNOS - INGLÊS 27/10/2017

OPERATOR – Ladies and gentlemen, thank you very much for waiting. Welcome to earnings call. We would like to inform that all participants will be listening to the Company during the presentation of the Company. And now [00:16] we're gonna start Q&A. And in case you need to have some assistance during the conference, please ask to the help of the operator dialing 0.

Now, I would like to give the floor to Victor Bicalho. Now, please, Victor you can start.

BICALHO – Good morning everybody, thank you very much for the participation. In the 3Q2017 we still observed the difficult scenario of sell out sales with our clients. We registered a growth volume of 5.4% in the quarter with greater share of the first price brands in line with our strategy of gain share in the segment as a response to the drop of the purchasing power. We had 3.1% drop in revenue but smaller than observed in the year to date. Also like in the 1S we observed the trade down movement with consumers. We also had a good performance of our channel, on line and franchise channel. We maintained a recovery scenario of the gross margin obtaining 47.0% gross margin in the 1S versus 43.8% in the 3Q2016, 3.2 p.p. gain. After the strong depreciation of the real during 2015 and beginning 2016 we had a reduction of this trend. This effect [01:46] internal efforts of works of reduction of costs with foreign suppliers, reprecification of products and assertive launches were responsible for the gain in margin obtained. The expenses with sales dropped 3.0% in the quarter and general administrative expenses dropped to 0.5%. This drop of SG&A shows the efforts of the Company to contain expenses even with greater investments. We maintained our growth strategy supporting resale [02:23] specialized channels to improve their stocks. We also maintained investments in the promotion team, co-managed project. Also at the end of 2016, beginning 2017, investments in development and

modernization of our sites, we reinforced our online marketing team. We begun to capture the results of this investment so that this channel could become more representative. We continue the works to optimize working capital through careful management of receivables deadlines, reducing the coverage of stocks stretching out the terms of national suppliers payment. We closed the 3Q with R$ 35.0 million, or 8.7 net working days. With the growth of gross profit we had as adjusted EBITDA of R$ 3.4 million and presenting 7.6% growth when compared to 2016. Our EBITDA margin attained 4.4%, 0.4 p.p. above the 3Q. We amortized R$ 35.0 million of our debt and stretched outstanding balance. The net debt was reduced by R$ 5.4 million. We also continue to [04:00] of the net debt in spite of the scenario.

To continue with the presentation we'll have a more detailed view of slide 3. 3Q2017, gross revenue R$ 93.9 million representing a drop of 3.9% in the 3Q, a smaller drop than observed. In spite of the drop in revenue, we had a growth in the volume of products sold, 5.4%. The average drop was 8.3% lower than the 3Q2016.

In slide 4 we have the evolution of the gross profit in the Company. In this quarter our gross profit had a 4.0% growth versus 3Q2016, thus totalizing R$ 36.1 million. We attained 47 gross margin in the 3Q, a growth of 3.2 p.p. versus the same period in 2016. Here we have the SG&A. Sales expenses went R$ 29.7 million, 26.0% representing 28.6% in the 3Q. The 3Q we had less investments in marketing and [05:44]. As expenses related to strategic projects grew with regards 2016. Investments in this project makes us very well positioned to face the broken economy in Brazil. Administrative expenses went from R$ 9.4 million in the 3Q2017 to R$ 9.3 million, presenting a drop of 1.4%. Expenses presented drop even with the expenses related to new projects and also we have an efficiency here in the management of expenses.

Slide number 6 we have the evolution of our adjusted EBITDA. We improved our results sequentially after the 1Q which was very challenging. In the 3Q we

attained an adjusted EBITDA of R$ 3.4 million, 7.6% above the 3Q2016. The sales drop was balanced by the growth of gross margin and reduction of expenses. As a consequence our EBITDA margin went from 4.0% in 2016 to 4.4% in 2017, a gain of 2.4 p.p.

In slide 7 we have the working capital situation comparing the numbers at the end of 3Q2017 with the numbers of the same period of 2016. Working capital totalized R$ 277.4 million in 2017, representing 397 days. In the same period in the prior year, the working capital summed up R$ 312.3 million representing 406 days. Accounts receivables we observed 5 days average price because of the defaults. The increase was slightly lower the observed in the last quarter. Macroeconomic environment which is still weak pressures clients with regards to stock. We had an increase of 6 days. In spite of the number of days, we reduced the balance by R$ 12.9 million compared to the year before. Accounts payable, 20 days above the 2Q2016, due to the stretching of payment terms, or deadlines, with national suppliers. We went from R$ 28.9 million in 3Q16 to R$ 35.7 million in 2017.

Our cash position. The Technos Group closed with a net debt of R$ 77.2 million in relation to the 2Q. We demonstrated the drop of 6.5%, 5.4% of the net debt, in relation to the same period 2016. It was a reduction of 26.9% or R$ 28.4 million.

Now I would like to open for questions.

OPERATOR – Thank you very much. Now we will begin our Q&A session. In case you have a question please write *1.

I would like to reminding you to ask questions you dial *1.

We would like to close the Q&A session. I would like to give the floor back to Victor Bicalho for his final considerations.

BICALHO – I think we observe here that there was a question from Naiara, Itau. If you could also Naiara.

OPERATOR – Naiara would like to ask a question.

NAIARA – Good morning. Thank you very much for the question. Two questions, in reality. The presentation of the results was very clear, I would like to know your expectations for the results of the 4Q, will it be in line with the same period last year, would there be an improvement here? What do you consider? And my second question has to do you disclosed to the market a reduction of the share [10:30], we saw here there was 20.0% of shares and now it's below 10.0%. I would like to understand today how this is today, would they liberate the [10:47].

BICALHO – Well, I'm going to start. With regards to the [10:55] we had two communications, one was the reduction of share of Dinamo and also Vitoria, there was two from Vitoria and one was more recent because they crossed the 10.0% barrier. Vitoria has reduced participation gradually but we today there is a Shareholders Agreement in the Company, so everything that is not share of administration is considered by [11:33] as free float. And shareholders have a free, a can adjust their portfolio, but they remained as a member of our board, we have 5 board members and other board members are independent. With regards to the 4Q we have projections. We have observed more recently we had an event which was one of the most important fair in the industry and there was a more [12:14] performance from the retailers, they were happier because of sell out sales, which are better and this also shows the volume of purchases which is more in line with normality. We begin to see the retailers rather than buying in October they are buying in November, closer to the celebration date. And they bought smaller volume. So since they didn't know how much they would sell they decided to buy closer to celebration date in lower numbers. We saw a gradual inversion of this trend going back to like it was in the prior years, also we are happy with launching at the end of this year

which is a new product which is Technos Connect, a smart watch we developed in the first sales period will be at 2017 Christmas date and we want to deliver these products to retailers so that they can put these products in the stores. With regards to the debt of the Company our strategy is to continue gradual reduction of the net debt of the Company, generating cash every quarter. Just like the Company has been doing in the last years.

NAIARA – Thank you very much.

OPERATOR – For you to make a question all you have to do is dial *1.

Now we are going to close our Q&A session. I would like to give the floor to Victor Bicalho for his final considerations.

VITOR BICALHO – I would like to thank for the participation of all people to have been here and if investors have a doubt we are at your disposal. Thank you very much and have a very good day.

OPERATOR – Technos conference call is closed. We would like to thank you for your participation and have a very good day.