Operator:

Good morning and thank you for waiting. Welcome to the earnings call for Grupo Technos 4Q17. We have with us the CFO and IR Officer, Mr. Victor Bicalho. We inform that this event is being recorded and all participants will be in the listen mode only.

Next, we will begin the Q&A session when further instructions will be supplied. If any of the participants need assistance during this call, please press *0 (star zero) to reach the operator. This event is also being broadcast live via webcast and may be accessed through Grupo website at www.grupotechnos.com.br/pt-br and on the MZiQ platform – www.mziq.com – where you will find the slide presentation.

Participants may view slides in any order they wish. The replay will be available shortly after the event is concluded. We remind you that participants on the webcast may send questions via the website for Grupo Technos and they will be answered after the conference by the IR Team.

We would like to clarify that any forward-looking statements during this presentation concerning the business perspective of Grupo Technos, projections and operational goals are based on beliefs of the company as well as information currently available to Grupo Technos. Future considerations are not guarantees of performance, they involved risks, uncertainties and assumptions because they refer to future events and, therefore, depend on stances that may or may not occur.

Investors and analysts should understand that general economic conditions, sector conditions and industry conditions may affect the future economics of Grupo Technos and lead to results that will differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the conference over to Mr. Victor Bicalho. He will begin the presentation. Sir, you have the floor.

Mr. Victor Bicalho:

Good morning and thank you for participating. In 4Q17 we continued to recover sales although they are still below our expectations. During the year, we went from 20% in Q1 to 4.2 in Q2 and improved in 3Q to -3.1 and in 4Q +0.4%. Also, we see positive signs in our direct sales and franchise. In these channels, we had a growth of 4.3% in sales during the quarter.

We launched Technos Connect 3.0, which is the first with a Brazilian brand. We also have an increase in the Classic – an increase of 1.3% in the category share. This product is very innovative both for store owners and also clients. We are monitoring after sales. We see that we are now selling to younger people. This shows a promising future that we will explore.

We continue to work on working capital through a cautious management of accounts receivable, a reduction in inventory and longer payment terms to our suppliers, both domestic and from abroad. We had a reduction also in working capital. These factors help us to decrease our net debt. We finished 4Q with a net debt of R$75.2 million, showing a drop R$25.8 million in relation to 4Q16.

At the end of 4Q we saw the need to have additional provisions for net debt. They are provisions for obsolete inventory. Some are recoverable, but the cost for recovery would be unfeasible economically. The extraordinary accruals or provisions were R$6.1 million.

In accounts receivable we saw, during the last two years, more delinquency. This is due to the economic conditions in the country in this period. The credit classified as bad debts were higher than historical average. We needed to make an extraordinary accrual for this, anticipating losses when they get older.

In the quarter, our gross margin reached 52.6% in 4Q and we saw a gain of 0.1 p.p. Here we have a consistent recovery due to problems with our exchange rates. On the other hand, in the consolidated results, gross revenue was 41.3% in the quarter, 7.5 p.p. in relation to the previous years. This difference is explained by two factors. First, the change in accounting practices, as we put in the attachment and also non-recurrent provisions for inventory as we mentioned previously.

Also provisions for inventory within the cost of merchandise sold. In the past we would record this in ‘Other Expenses.’ Apart from this, with a reduction in inventory in the last few years, we reevaluated the potential for recovery for older inventory and that has increased accruals and provisions, especially Dumont 2013.

Non-recurring provisions: administrative expenses remained stable at R$156.3 million. And also inventory. We also decided to make additional provisions for bad debts of R$2.1 million. Considering these provisions, our expenses reached R$56.4 million in the quarter. This increase in the provision for bad debt was due to the deterioration of the credit situation in the last two years. After looking at this, we decided to increase the percentage of accruals or provisions, being more conservative and recognizing losses due to bad debts.

We understand that the serious economic crisis in the last two years brought significant difficulties for our portfolio of clients, decreasing their possibilities to pay their debts. We made an effort to decrease expenses in spite of inflation in the period.

We continue investing in marketing for brands and launching innovative products. With this, our adjusted EBITDA was R$24.8 million, 20.7% lower than that of 2016. EBITDA margin reached 21.3%, 5.6 p.p. below that of the previous year. Excluding the effect of these provisions in the quarter, we reached an adjusted EBITDA of R$37.6 million, 20.2% higher than in 4Q16.

Continuing with our presentation, on slide three we have a more detailed view of gross revenue. In 4Q17 we had a gross revenue of R$138.6 million – a drop of 3% in relation to 4Q16. On products sold, we see the number of watches sold and on slide number four, we see the evolution of gross profit.

In the quarter, our gross profit had a drop of 15.1% versus 4Q16, R$48.3 million. We reached 41.3% of gross margin, a drop of 7.5 p.p. versus the same period in 2016. Excluding provisions or accruals were at a drop of 2.3 p.p. in gross margin in relation to the same period last year, reaching 46.4% and R$54 million in gross profit.

After a strong devaluation of the BRL – local currency – we had more stability in the exchange rate even with the BRL appraising. This is due to our internal efforts with cost reduction from foreign suppliers. These were responsible for the gains we obtained. On slide number five, we have SG&A expenses. Excluding the credit provisions, the expenses with sales had a drop of 4.6% or R1.7 million, reaching R$ 33.7 million, representing 31.8% of net revenue.

We continue to reduce expenses in 4Q with a more conservative position. Here we have R$8.8 million, 3.7%. We have also a low potential of recovery for some collections. We have, therefore, provisions and we had this problem due to the economic crisis. We have an increase in provisions and sales expenses, which went from 30.3% of net revenue to R$46.6 million in 4Q17, 38.9% of net revenue. Administrative expenses went from R$8.5 million in 4Q17 to R$8.8 million in 4Q17 – a growth of 3.7% and practically in line with the previous year.

On slide number six, we have adjusted EBITDA. In 4Q it was R$24.8 million, 21.2%, 20.7% lower without the effective provisions, representing a drop of 20.7%, R$24.8 million of adjusted EBITDA in 4Q17. In 4Q17 we adjusted our EBITDA, the provision for taxes on obsolete inventory. Reversal of provisions for non-cash expenses reached R$6.1 million, especially inventory. R$3 million concerning the impact of present value.

Working capital, on slide number seven. Working capital reached R$262.2 million in 4Q17 representing 340 days. Working capital was 313 in 4Q16 and represented 395 days. We reached the lowest level of working capital in the last five years with a reduction of 55 days. Now, in accounts receivable we see a decrease of 16 days for collection and signs of recovery in the portfolio of clients.

Part of this drop, 7 days, happened to due to extraordinary provisions of bad debt, worth R$2.8 million. The other part was a decrease in delinquency. In inventories, there was reduction of 32 days due to the reduction and provisions for losses in inventory. We have now accounts payable, 7 days above that of 4Q16 due to longer payment terms for domestic suppliers and international suppliers for the working capital 55 days.

Finally, on slide eight, our cash position net cash. Since 2013 when we took out a loan. In 3Q17 we restructured to be in line with the cash. We have an 18 month lengthening until December 2019. Technos Group closed 4Q17 with a net debt of R$ 77.2 million. In relation to 4Q16, we see a drop of 25% or R$25.8 million.

Now, we'd like to begin the Q&A session.

Marina Westphal, Santander:

Good morning. I would like to better understand the working capital – how it evolved during the 1Q18. Do you continue with the low historical levels? Perspectives for the end of the year: will it be in line with 2017's working capital or do you believe you will need more provisions, more accruals?

Victor Bicalho:

Marina, thank you for the question. We observe that in the beginning of the year we continued on the same level as in 2017, especially in accounts receivable due to a small improvement in the economic conditions and our efforts in accounts receivable. We see less delinquency with our inventory. We believe we will have a lower average inventory because we are beginning with lower, healthier inventory.

And in accounts payable, we continue working with our suppliers. We should continue to have longer payment terms. When we look at our plan for 2018, the work we do on working capital is important for the Company's result for this year.

Operator:

We woud like to conclude the Q&A session. We would like to pass the floor to Mr. Bicalho for his final comments.

Victor Bicalho:

We would like to thank you all for participating in our Earnings Call for 4Q17. If you need any clarification, we're available with the IR Team. We wish you a good day.

Operator:

This concludes the Grupo Technos' Conference Call. We thank you all for your participation and wish you a good day.