Operator:

Good morning, and thank you for waiting. Welcome to the conference call of Grupo Technos concerning the earnings of 3Q18. We have with us the CFO and Investor Relations Officer, Mr. Miguel Cafruni.

This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. Next, we will begin the Q&A session, when further instruction will be supplied. If you need any assistance during this call, please press *0 to reach the operator.

This event is also being broadcast live via webcast and may be accessed through Grupo Technos' website at www.grupotechnos.com.br, where the presentation is also available. Participants may view slides in any order they wish. The replay will be available shortly after the event is concluded.

Participants may also send questions through our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Grupo Technos management and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that conditions related to macroeconomic conditions and industry conditions may also affect the results of the Company, and results would be different.

Now, I would like to pass the floor to Mr. Miguel Cafruni, who will begin the presentation.

Miguel Cafruni:

Good morning, and thank you for participating.

The 3Q presented difficulties in sales. We had more difficulties in the month of July, but in August and September, our sales results showed signs of recovery in relation to the previous quarter.

The changes in the top management of the Company, in August, brought a renewed focus in operational excellence, and also in the relationship with our clients, thus in line with our values.

Our main brands had a good performance in the quarter, growing 8% in revenue and 10% in volume versus the previous year. We attribute the performance of the brands to the good brands, and a greater offer of products in the price ranges that are more popular in the market. But we suffered in the sales with the impact of brands and products that have been discontinued, for example, Adidas and Timex.

Our gross margin maintained itself stable, in spite of the effect of the devaluation of the Real, the local currency, in relation to the USD and the changes in the recording of provisions, or accruals for inventory currently recorded at CMV.

These effects also affected the internal gains, with the work for cost reduction with foreign suppliers, improvements in productivity and reduction in the cost of international freight.

The expenses with administration and sales were 5.4% below those of 3Q17, or R$2 million. This drop is due to the Company's efforts to reduce expenses. In spite of changes in top management, with the cost of layouts, or severance payments, we had savings with the change in our headquarters, a reduction in bad debt expenses, variable expenses, and the sale, the acceleration of investments in projects that did not have a good return.

Our net profit was R$3.4 million, better than the results of 3Q17, a reduction of 47.2% in the loss of the quarter. Our adjusted EBITDA in the quarter was R$1.7 million, a drop of 48.5%.

The drop in sales with the stability of the margin reduction as G&A expenses had the main impact. We also reduced our net debt by R$28.3 million in relation to 3Q17, finishing the quarter with R$49 million.

We also recorded gains in efficiency by using working capital, and the total bounce was R$60.2 million smaller than in 3Q17, or 73 days. This shows our search for strategies to reduce the use of working capital in the business.

In the last quarters, we have been working to improve the profile of our debt, lengthening the maturity and reducing the average cost. In the previous quarter, we closed an important operation, with a total length of nine years and interest rates of TLP from Finep, a public agency that finances innovation, especially for smartwatches. This quarter, we lengthened the debt with one of our partner banks for another 18 months.

This strategy is aligned to the one we communicated already. We reinforce that, although we lengthened our debt, we continue reducing our net debt, which went from R$77.2 million in 3Q17 to R$49 million in 3Q18, a reduction of R$28.3 million. We continue focused on improving our operation in order to guarantee.

Given continuity to the presentation, on slide three, we have a detailed vision of gross revenue. In 3Q18 we had a gross revenue of R$84.8 million, which represented a drop of 9.7% in relation to 3Q17. Our volume of products sold reached 565,000 units, dropping a little more than our sales. The average price was practically stable in the quarter compared to the same period in the previous year.

On slide four, we have the evolution of the gross profit of the Company. In the quarter, our gross profit had a drop of 7.3% versus 3Q17, totaling R$33.5 million. Our gross margin was in line with our 3Q17, 47.1%.

Excluding the effects of the new criteria for recording our provisions and inventory, we had a gain of 0.9 p.p., reaching 47.9% in gross margin. We recorded internal gains with the work of reducing costs with foreign suppliers, improving productivity in the assembly in Manaus, and the reduction of cost of international freight. These gains were important to maintain the gross margin, and also working with the mix of our products, and we also had a strong increase in the value of the USD.

On slide five, we see the SG&A expenses. We recorded reduction of 5.4%, or R$2 million in SG&A in 3Q18 in comparison with 3Q17. We had a reduction of our expenses, in spite of severance payments with the changes in top management, announced on August 2 through a Material Fact.

This was inferior to the revenue, and with this, with a percentage of net revenue, the expenses with sales and administration went from 49.3% in 3Q17 to 50.4% in 3Q18.

Expenses control and the objective to maintain profitability of the business is a strong commitment on the part of the management. Year-to-date, 2018, our SG&A had a drop of 5.7%, disconsidering the cost of the severance payments for top management, and the reduction in expenses represented 9.6% below the same period in the previous year.

In this sense, the Company had savings in products focused in resources, on more effective campaigns, where we have a better conversion to revenue, and a good generation and return for the business. We also had savings in 3Q18 versus 3Q17 with bad debt, with a better management of credits.

In 3Q, the adjusted EBITDA was positive by R$1.7 million, with a margin of 2.5% on net revenue. Compared to the same quarter of 2017, the performance represents reduction of R$1.6 million, or 48.5% in the amount of the adjusted EBITDA, or 2 p.p. in margin.

Going on to slide seven, we have the evolution of working capital. The working capital of the Company in 3Q18 totaled R$217.2 million, representing 324 days. In the same period in the previous year, the working capital represented R$277.4 million, and represented 397 days, which shows a reduction of 73 days.

In accounts receivable, we improved also the part of our clients, we had an improvement in the period and we went from 183 days of receivables in 3Q17 to 161 days receivables in 3Q18.

The inventory finished the period with a balance of R$144 million, representing 20 days more of working capital. We had a growth due to the increase of the exchange rate and a drop in sales in May and July. We are working to delay orders, and also improve purchases.

In accounts payable, we continued our work to lengthen the time, with the payments to domestic and foreign suppliers going from 73 days to 144 days with average payment.

Finally, on slide number eight we summarize our cash position. Grupo Technos closed 3Q18 with net debt of R$49 million, reduction of R$28.2 million in comparison with R$77.2 million in 3Q17. In relation to 3Q18, we had a reduction of R$5.1 million in our net debt.

In the last quarter, we closed an important operation, with the total time of nine years, TLP interest from Finep, which finances research and projects. This is for our smartwatches. This quarter, we lengthened our debt with one of the banks for another 18 months.

These actions are part of the strategy to work with a cash balance that is higher in months of economic uncertainty. So, we reinforce that, since 2013, the Company has had loans for the acquisition of Dumont Saab, and we have reduced continuously our net debt.

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

Operator:

We would like to conclude the Q&A session. Now, we would like to hear Mr. Cafruni for his final comments.

Miguel Cafruni:

We would like to thank you very much for participating in our call for 3Q18. Our Investor Relations team is available to clarify any points.

Thank you.

Operator:

We would like to say that the conference call is concluded. Thank you, and we wish you a good day.