



**Operator:**

Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Valid's 2Q17 earnings conference call. Today with us we have Mr. Carlos Affonso d'Albuquerque – CEO and Mrs. Rita Carvalho – Chief Financial and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Valid's remarks are completed, there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator.

We have simultaneous webcast that may be accessed through Valid's IR website at [www.valid.com/en/ir](http://www.valid.com/en/ir) and the MZiQ platform. The slide presentation may be downloaded from this website; please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities litigation reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of Valid management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Valid and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Carlos Affonso d'Albuquerque, CEO for Valid. Mr. d'Albuquerque, you may begin your conference.

**Carlos Affonso d'Albuquerque:**

Thank you. Hello, everyone and thank you for being here with us again on this call. I would like to say that it is very good to be here and show you our improvements. Remembering that the 1Q was very challenging, very tough for us, but we see, in this 2Q, better results, but not the results we expected to be the normal level of results.

It is also important to remark that we are seeing that the homework we started last year, when we consolidated plants and started to review the process, we are seeing results right now, we are seeing the Company much more efficient now than in the past.

It is extremely important for us, because we know that our market remains here, but it has been tough and challenging, so, we need to be very efficient in our structure and we are succeeding on that.

Remembering that in the call last quarter, in the cost review, we said we are going to intend to rebuild our cost in something around R\$80 million in the next 12 to 18 months. Now, I can say that we already implemented process that will bring to us a cost reduction of R\$25 million, included in this R\$80 million, in the next 12 months.



So, we will see and it is worth saying that we are on the right track and we are pursuing this R\$80 million cost reduction. We affirm that in our results, in efficiency, translated into the margins we have presented, mostly during the last month of the quarter, June, we can see that our EBITDA margins went up. They went up because the volumes were different from what we expected, and the structure we used to have.

Having said that, it is worth noting that we strongly believe that the market that we work today is going to survive for many, many years. So, it is still important to have this kind of efficiency with us. Without pursuing this efficiency, we would not have been able to compete in this market. That is what we are doing.

We are betting in the current market, but being more and more efficient. At the same time, we cannot be naïve. We know that market will progress, improve, develop itself and how? In many ways, but I would like to call attention for three initiatives we believe will be extremely important for the future of the Company, the first one is track&trace in the ID business in Brazil. The second one is the possibility to grab more contracts in the ID business in the US and the third one is the natural evolution of the removable SIM towards the embedded SIMs.

Specifically about the embedded SIMs, I believe I need to call attention to two important points: number one, we are not giving up to supply the market as we are supplying right now. Today, we supply the telecom market only with hardware and software, chips and operational systems. We are going to pursue like that in the near future for sure.

We would like to be an important supplier of embedded SIMs with iOS for the market in the next years, absolutely. But we believe, and we are making an effort, we need to go up in value chain markets, being the center of these chips. We need to be ready to supply the market not only with boxes of chips and operational systems, but also with services.

What I can tell you now is that we are almost ready and we will be very active in this market by 2019. So, we need to pay attention on our structure, our efficiency, and, at the same time, we need to work hard to build the future of the Company following the market trends. I can assure you that we are following that very closely and we will be ready for that.

We decided to do in this call something different, to be very fast in our speech, going through the main points we would like to remark and have more time for questions.

So, I turn over the call now to Rita.

**Rita Carvalho:**

Thank you. Hello, everyone. Thank you again for being here with us today. At this time, I will also be very brief in my comments and address only a few points beyond what we have already reported in the earnings release. Then, we will open the call for questions.

The first point I would like to comment is related to the Company's operating cash generation in the 1H. In the 1H, we consumed R\$45 million in cash, and this is, mainly, due to the increase in our accounts receivable in about R\$30 million, due to the increase in sales in the 2Q17.



I would like to remark that this is not related to the increase in overdue, this is, really, related to the increase in sales during the quarter, especially during May and June. We also spent R\$23 million, and this is equivalent to US\$7 million, related to an upfront payment we made to one of our partners in Asia to work on the certifications and approvals we need to start the production of embedded SIM cards earlier next year.

Those processes normally take between five and six months to be finished and that is why we had to make this movement now.

The second point I would like to comment is related to CAPEX. We spent, during the 1H17 the total of R\$22 million versus R\$40 million from the 1H16. So, the total related to this total amount, around R\$7.3 million, was spent in the identification system's business.

In Brazil and, also, in the United States, to finish the implementation of the infrastructure in Washington, we also spent around R\$6.2 million on development of new services and this is a trend of the Company to focus on more our investments in services and solutions and less in equipment, and we also spent R\$6 million related to the plants restructuring project, both in Brazil and also in the United States.

We are analyzing our investments with even more criteria and, this year, the total expenditure should not exceed R\$50 million. Finally, the third point I would like to mention is regarding leverage.

In the third half of this year, we paid a total of R\$326 million to amortize our debt plus interest and we also raised, during the 2Q, US\$100 million. This was mainly to refinance the Company's USD debt.

So, with lower sales, lower results in the 1H and higher indebtedness, we ended the 2Q with a net debt of 2x the accumulated EBITDA on the last 12 months, but I would like to mention that we are working to reduce our leverage during the 2H17 and keep our 50% payout commitment to distribute the net income, without this compromising the Company's future investment needs.

Those are my points and now we are ready to take your questions. Thank you.

**Alexandre Spada, Itaú BBA:**

Good morning. Thanks for taking this question. It is just a quick follow-up from discussions we had already in the Portuguese conference call. In the discussion we had regarding working capital, you in your initial statements already discussed the negative contribution year-to-date.

My question is: can we expect a reversal of that behavior in the 2H17? Actually, the working capital for sometimes generates some cash or do you think that contribution will continue to be negative in the 2H17 and then following what we saw in the 1H? Thank you.



**Rita Carvalho:**

Thanks for the question. We will definitely have operational cash generation during the 2H. Definitely.

**Alexandre Spada:**

OK, that is very clear. Thank you.

**Operator:**

Now, I will turn over to the Company for final considerations. Sirs, go ahead.

**Carlos Affonso d'Albuquerque:**

I would like to thank you again and I think it is very important to remark that we are working a lot, because we strongly believe in what we are doing and we know that the market will continue to be challenging every time. So, we need to be aware, look into our operations, look at our opportunities. And we are.

So, we are preparing the Company, the Company now is celebrating 50 years now, we are working hard to be here for the next 500 years. We have a lot to do. And, again, if you have any other question, do not hesitate to call us.

Thank you very much again.

**Operator:**

Thank you. This concludes today's Valid's earnings conference call. You may disconnect your lines at this time.

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