

Operator:

Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Valid's 3Q17 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.br/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, everyone for being on this conference call. I would like to start emphasizing that all these years, we have been doing many efforts to build the strength of the Company.

The situation shows us that we need to improve our efficiency and with the results of the 3Q, I believe we are showing what we did once we see the EBITDA margins of the 1Q, 14%, 2Q 15%, and now in the 3Q we reached almost 17%. I think that is a clear remark that we are doing everything at our side to put the Company in a very good shape. We are very confident we reached that.

In the end of the 2Q17, we noted to the market that our plan would be to reduce our costs around R\$80 million in the next 24 months, at the time. Now, at the end of the 3Q, I can show assure you that we already implemented actions that will bring to us savings of around R\$40 million, that is why we are confident we are going to reach the goal we told everybody in the 2Q19.

Also, it's important to remark that, during this quarter, we had some one-off events, mainly in the Certification but it was a one-off, and just remembering that during almost all of this year, we had natural fees that we paid for in Brazil in ID business, but even

considering these two movements, we are delivering higher levels of margins and we are very confident this trend will go on.

At the same time, I think that it is important to call attention for the performance of the United States. In the beginning of this year, the US operations were composed by four business, the financial cards, the data business, ID business and telecom.

Telecom, ID and data are performing very well and we are seeing in financial cards a dynamic a little bit different, because in financial cards we have the EMV cards and gift cards. They have completely different dynamics. The EMV suffered a lot during the year, and in the 3Q we already saw volumes going up, of course, lower ASP, but with better margins, performing very well.

On the other hand, we have the gift cards, and the gift cards, specifically in the 3Q suffered a lot because of the mix from these gift cards. So, we need to pay attention to that and to be more selective on what we are going to provide regarding gift cards and we are paying attention to that.

All in all, I would like to give a clear message that we are now in an inflection point, when we are seeing the down trend going down and onwards we are going to see our results, revenues, margins, going up. It is important because the outcome of all of the efforts and measures during all these years.

We are very confident about, first, to deliver the results we did to you during the year and second, that 2018 will be a year completely different from 2017. So, that is what we have to tell you right now. We prefer now to reduce a little bit this conference call and open to questions.

Now, I pass you to Rita, who will talk a little bit about the business' financials. Thank you.

Rita Carvalho:

Thanks, Affonso. Hello, everyone. Thank you all for being here with us today. Regarding the 3Q results, I will be very brief in my comments so then we can open to take your questions.

The first thing I would like to talk about is related to the other operating expenses line, which totaled R\$14 million this quarter. Of this total, the main expenses were R\$3.4 million related to the amortization of fair value, regarding the acquisition of Fundamenture, and R\$8.3 million was related to the payments of consulting and expenses related to the cost reduction projects that are still happening in the Company.

I would like to remark that this line of operating expenses will still remain above the average in the upcoming quarters, and this is mainly to the cost reduction project, but, on the other hand, it will come with more efficiency and a lighter cost structure.

The second comment I would like to talk is about CAPEX, where we continue to be very cautious regarding our investments while remaining very careful about the maintenance of Valid's traditional business.

So, in 9M17 our total CAPEX was R\$22 million, where approximately R\$14 million was invested in the Identification division, both in Brazil and, also, in the United States to

finish the infrastructure we had to implement to serve the Washington state. The remaining amount was spent on the development of new services and platforms.

So, our CAPEX this year should end the year well below the R\$50 million I have mentioned in the 2Q.

On the other hand, we invested R\$37 million to acquire 5.4% stake in Cubic, because we believe this is a strategic movement for the Company, to participate more in its daily life and understand what its customers are talking about the market, in order to be better positioned in the market of personalization of chips, focused on the Internet of things environment.

And finally, after two consecutive quarters without generating cash, our cash generation this quarter was positive, in almost R\$40 million, which contributed to end the quarter with a cash position of R\$308 million.

In the 9M, we paid a total of R\$331 million to amortize our debts plus the interest, and we also waived US\$100 million in bank loan, mainly to refinance the USD debt.

We were able to reduce our net debt by R\$8 million when we compare to the 2Q17, ending the quarter with a net debt of 1.9x the cumulative EBITDA of the last 12 months.

Looking ahead, especially for next year, the with the improvement in our results, and also with the cash generation returning to more normalized levels, our expectation is to reduce our investments, returning to 2016 level, which was around 1.5x the EBITDA of the Company.

Regarding dividends, last Wednesday we announced the payment of R\$14 million, keeping the payout commitment of 50%, without compromising the Company's future investment needs.

Thank you very much once again, and now we are ready to take your questions.

Alexandre Spada, Itaú BBA:

Good morning. Thanks for taking my question. I just want to follow-up on the EBITDA growth for 2017. In the previous quarter you provided a range a -15% to zero growth this year. Given the numbers accrued so far by the Company, it sounds more likely that you will be closer to the bottom of this range for 2017. I would like to confirm that. That is my first question.

And second question, do you plan to provide a formal EBITDA, or EBITDA growth guidance for 2018 next quarter, or that will not happen? Thank you.

Carlos Affonso D'Albuquerque:

Thank you, Alexandre. Yes, it is confirmed that we are closer to the bottom, but the quarter just started in October. We are working on the performance of this quarter, but no less than 15%, closer to that, yes. That is what we are working on.

And second, about the guidance for 2018, we are closing our budget process, and we do not know, but probably yes, we are going to give you some view of what we are thinking about for 2018.

Alexandre Spada:

OK. Thank you very much.

Fred Mendes, Bradesco:

Good morning, everyone. Thanks for the call. I have two questions, more related to the ID segment. The first one, how is the renew of the process of the concessions in the segment, with you have any update?

And then, my second question, we observed a significant increase in the volumes for this segment, and also an improvement in the margins. I was just wondering what can we expect from this business, especially in 2018? If you are already seen this kind of higher volumes being sustainable throughout 2018, if you think that is a fair assumption. Thank you.

Carlos Affonso D'Albuquerque:

Fred, first of all, we have two kinds of new concessions. When we talk about the current business that we have, the other lines, ID cards, we are on a normal course of business, no surprises. So we are not foreseeing any issue on that.

Regarding new possible projects, we are waiting. We know that we have very good opportunities, when it comes up, but it is not yet, so we need to wait. But we believe that something is going to happen, but we cannot precise when it is going to happen.

Regarding volumes and margin, I think that through all of this year, we can show everybody that, of course, this business is related to volume, but at the same time depends on our cost efficiency. This year we are showing that we have both, cost efficiency and better volumes.

Considering that we are not foreseeing drops in the economy in the future, we do not foresee big drops in volumes from now on. So we are strongly confident that these volumes will be kept for the next quarters, and their structure. So it is a good landscape.

I do not know if I answered you properly.

Rita Carvalho:

Of course, it is expected in the seasonality of the quarters.

Carlos Affonso D'Albuquerque:

Yes. 4Q, additionally, has lower volumes than the rest of the year.

Fred Mendes:

Very clear. Thank you. Just a quick follow-up, since it seems there are no more questions, it seems: now, with the lower CAPEX and the increase in cash generation, what can we think in terms of capital allocation from now on? Thank you.

Carlos Affonso D'Albuquerque:

Firstly, we are going to keep our EBITDA policy. Secondly, what you are going to see is the mix of this capital allocation between its additional business and the new business that we are foreseeing.

And as we have been saying since the beginning of the year, this capital allocation is moving towards the new solutions that we are developing. That is our goal, to do it with more consistency, and develop the new solutions that our customers are requiring from us. And, consequently, with this cash generation that we are bringing back again, we are going to see our net debt/EBITDA reducing.

So, all in all, everything is good.

Fred Mendes:

Thank you.

Operator:

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

Carlos Affonso D'Albuquerque:

Thank you guys. It is very important to be very close to all of you, and I would like to give a message. First, everybody knows that 2017 was one of the toughest years ever. We did our homework, we rethought our structure, also, processes, and we got more efficiency.

For 2018, what we are seeing is a better landscape, with a very good structure. Because now the structure is not a problem. We reached a very good structure in all of the Company, not only in Brazil, but in the United States as well. So we are very confident about the growth that we are going to see in 2018.

And again, I really appreciate all of your support. Whatever you need, just let us know. Thank you very much.

Operator:

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a good day.

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