

**Operator:**

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Valid's 2Q18 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 a simultaneous webcast that may be accessed through Valid's IR website at [www.valid.com.br/en/ir](http://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 will turn the conference over to Carlos Affonso d'Albuquerque, CEO for Valid. Mr. D'Albuquerque, you may begin your conference.

**Carlos Affonso D'Albuquerque:**

Hello everyone, and thanks for attending once again this conference call to disclose Valid's earnings. It is great to talk to you again and report another quarter of growth, the fifth consecutive quarter. It shows that we definitely reached our goal to reverse our results.

Our traditional market faced over the last two years several challenges, and it was not different with Valid. However, due to the clearness of what we should do, together with the exceptional ability of executing and transforming of everyone in Valid, we were able at the end of 2017 to be ready for 2018, which was seen as a year of opportunities.

It has not been such an easy year. However, with the reinforced foundations we recovered our growth, and we are ready to seek for new business opportunities to Valid.

In this regard, we are strongly working in three main growth opportunities: the first one, IoT, specifically in verticals of automotive, healthcare and agribusiness; object tracking; and biometric validation. To the extent that the projects related to these initiatives reached their respective reversal points, we will provide you with further information.

I believe it is very important to emphasize that none of the opportunities I have just mentioned is a disruption of Valid's traditional markets, but a natural evolution of our core business, which is the identification of people and objects.

The efforts of Valid's executive officers to meet our customers need, and the correct and timely reading of the market evolution have allowed to be absolutely aligned with the near future.

I cannot fail to mention the specific recover of each business area. First, the payment division, both in the United States and Brazil, had a fantastic turnaround, from very low results, sometimes even negative, to stability in efficiency and, therefore, results.

The identity division in Brazil is already expanding its business model of tracking and biometric validation. In the United States, as a result of new identification agreements, we are moving towards a more robust market share that in the medium term will bring us opportunities similar to those we have in Brazil.

On mobile, this area is facing a significant expectation of changing from removable SIM to embedded SIM. With respect to this issue, I should provide more details. We do not expect the traditional SIM will completely disappear in the short term, and I would say not even in the medium term. At the same time, we are absolutely ready for the evolution towards the e-SIM, for which we already have our product, operational system, and safe customization platform, which is the subscription management.

With this new set of service, hardware, software and platform, we are already able to actively participate in an innovative way in the IoT market, which every day becomes an irreversible reality.

When we look at the essence of each of these three business areas, it is clear that in the medium and long term this areas have a strong convergence trend, and will act as a single solution, however without losing their identity and need of individual development.

Finally, I would like to thank our team that strongly contributed for this transformation.

Now, I will give the floor to Rita, our CFO.

**Rita Carvalho:**

Thank you, Affonso. Hello, everyone. Thank you once again for joining our conference call. I would like to make some brief comments about the 2Q results.

One is about net income, which was R\$13.5 million this quarter, substantially higher than the one in the 2Q17, but 31% lower than the 1Q18. The main impact on net income this quarter was a non-cash effect related to the negative exchange rate variation of R\$7.2 million in Valid Spain results, related to the US\$100 million loan that we raised in 2017.

As the functional currency of Valid Spain is the Euro and the loan was in USD, the adjustment of the debt in Spain's balance sheet has been affecting the Company's result.

In 1Q18, the exchange rate variation impact was positive in R\$8.7 million. When we analyze the year-to-date figure, we can see a positive impact of R\$1.5 million. In May this year, in order to mitigate these fluctuations in Valid's results, the Company adopted the accounting policy of hedge accounting of investment and began recording these variations in the shareholders' equity. Therefore, the Company's result has not been affected by these impacts since then.

Another relevant comment about the net income refers to the effective income tax rate, which was 38% in the 1H18, due to certain expenses we incurred, which are not deductible for income tax purposes, and also because we did not distributed any payment of interest on equity, which should happen at some point in the 2H18. We expect our effective income tax rate for full year 2018 to be around 30%.

Now talking about operating cash generation, which came to R\$60 million this quarter, another excellent result. Year-to-date, our cash generation totaled R\$107 million, confirming the Company's expectation to be a strong cash generator again.

In 2Q18, we raised R\$360 million in debentures, which mostly went to refinance the debt in Brazil. In the first six months of 2018, we amortized R\$125 million in debenture related to the installments due in the 1H18, plus R\$52 million related to the amortization of debt of our subsidiaries outside of Brazil. In 2Q18, we also spent R\$32 million on CAPEX and paid R\$11 million in dividends, related to the 2017 results.

We closed the quarter with a cash position of R\$517 million and a net debt to the last 12 EBITDA of 1.8x, which is slightly higher than the 1.7x we recorded in 1Q18. This is mainly due to the impact of the FX rate applied to convert the USD debt to the equivalent amount in Reals. Assuming the exchange rate will remain at the current level, we expect the Company's indebtedness to close 2018 at around 1.5x.

Still talking about debt, in July we prepaid the Company's sixth issue of debentures that would be due in June next year. Therefore, our gross debt is currently composed by R\$360 million in debentures, related to the seventh issue, and US\$130 million related to the USD debt of the subsidiaries outside of Brazil, of which US\$23 million will be amortized throughout 2H18.

Finally, we reaffirm our commitment to distribute at least 50% of our net income, which in 2018 will be made mostly through the payment of interest on equity.

Once again, I would like to thank you very much, and we are now open to take your questions.

**Operator:**

At this time we will conclude the question and answer session. I turn the call over to the Company for final considerations. Sir, you may go ahead.

**Carlos Affonso D'Albuquerque:**

Thank you very much. We really believe that we are in the right track and the right pace. So, let us keep moving. Thank you very much.



THE SECURE SIDE OF INNOVATION

Conference Call Transcript

**2Q18's Results**

Valid (VLID3 BZ)

**August 10th, 2018**

**Operator:**

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

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