



## 4Q18 Conference call – English Transcript

### José Leoni

Good morning, everyone. I am José Leoni, Investor Relations Manager at Sinqia. Thank you for attending our conference call for the 4Q18. I would like to start our conference call by recalling 4 important recent events highlighted on slide 2. We disclosed, yesterday, the settlement of our first debentures issuance in the amount of R\$ 32 million, which will be used to finance new acquisitions.

The debentures have a maturity period of 5 years, a grace period of 1 year and interest rates of CDI plus 1.75% p.a., figures that demonstrate our ability to raise long-term resources with attractive costs. Also, this month, following the process of brand change, our shareholders approved the new corporate name “Sinqia S.A.” And, from the beginning of last week, our ticker at Novo Mercado listing segment became “SQIA3”.

In mid-January, we announced the acquisition of Atena, a provider of software for pension entities. This was the eleventh acquisition by Sinqia and the third in this market. The rationale of the business was widening our offer that now has a model for institutional funds and expansion of our customer base, which exceeds 60 entities.

Atena had a gross revenue of R\$ 8.8 million and was acquired by an initial enterprise value of R\$ 9 million. In December, we simplified the Group’s economic structure with the incorporation of attps Informática and two other subsidiaries. These incorporations enabled the amortization of the goodwill generated in the respective acquisitions, resulting in a significant tax shield of up to R\$ 25.5 million to be used over more than five years.

Also, in December last year, soon after the change of the brand, we made the change of our headquarters in São Paulo. We continue in the region of Paulista Avenue, but now in a more efficient and modern facility and prepared to support the Company’s growth. I take this opportunity to invite those who have not yet had the opportunity to visit us to schedule a tour at our new building with the Investor Relations department.

Moving to slide three, as shown in the chart to the left, net revenues were record of R\$ 39.7 million in the quarter, an increase of 8.5% over the same quarter of 2017, a variation that results from the records in both services and software businesses. In the year, we reached a record of R\$ 142.1 million, a growth of 5.3% over 2017.

The organic addition still reflects only part of the sales made in 2018 because, in some cases, we exchanged one-time implementation revenues for higher subscription revenues that should be noticed after the conclusion of the respective implementation projects.

In the chart to the right, recurring revenues in the quarter presented a new record of R\$ 32.2 million, up 24.7% versus the 4Q17. And the recurrence rate reached a record of 81.2% of the total, against 70.6% in the 4Q17, as a result of higher volumes in subscription and outsourcing revenues.

In the year, recurring revenues totaled a record of R\$ 115.7 million, plus 16.9% versus 2017. And the recurrence rate also reached a record of 81.4%, against 73.4% in 2017, a result of significant increase in outsourcing and subscription.

Moving to slide 4, to the left, the gross profit in the quarter reached R\$ 14.7 million, down 4.5% versus the same quarter of 2017. And gross margin reached 37.3%, a drop mainly related to the increase in the outsourcing volume, which has lower margins than software. A R\$ 1.1 million increase in RD&I (Research, Development and Innovation), fully booked under costs and an increase of R\$ 0.9 million from ConsultBrasil.

In the year, gross profit reached a record of R\$ 52.9 million, an increase of 4.3% versus 2017, with a gross margin of 37.2%. It should be emphasized that, as of January last year, we substantially expanded our RD&I investments in software from acquisitions that were in different stages of technology, besides implementing a single-user experience across our software. Further ahead, we will detail the evolution of the numbers.



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At the center, SG&A expenses in the quarter reached R\$ 10.6 million, an increase of 8.5%, representing 26.6% of net revenues, the same percentage of the 4Q17. Despite the organic R\$ 0.3 million, the increase is related to the extraordinary expenses of R\$ 0.6 million, with change of the brand, and R\$ 0.5 million of the subsidy of setup of the new sales.

In the year, expenses reached R\$ 34.4 million, an increase of 5.8% over 2017, representing 24.2% of net revenues, virtually stable compared to 2017. Of the increase of R\$ 1.5 million, R\$ 1.2 million refers to the subsidy of new sales setup; and R\$ 0.6 million to the brand change.

It is worth stressing that we adjusted the commercial model and started to subsidize the setup of the new software sales, since this cost is higher to change software already installed.

To overcome this barrier, we exchanged one-time implementation revenues for recurring subscription revenues. This subsidy of R\$ 1.2 million in the year will bring a greater recurrence profile after the implementation, as we will see in the explanation of the portfolio of recurring contracts.

Turning to adjusted EBITDA, on the right, it totaled R\$ 4.9 million in the quarter, down 14.3% versus 4Q17. Adjusted EBITDA margin was 20.3%. In the year, adjusted EBITDA was R\$ 19.2 million, down 80.8% against 2017, with adjusted EBITDA margin of 13.5%.

Again, items such as increased investments in RD&I and subsidy to the setup of new sales hindered comparability. Disregarding these items, adjusted EBITDA would have increased by R\$ 0.9 million, or 14.2%, versus 4Q17. And the annual adjusted EBITDA would have increased by R\$ 1.8 million, or +8.7%, versus 2017.

These investments in RD&I, as well as the subsidy to implementations for the new customers are an important and effective strategy to accelerate organic growth and increase recurrent long-term revenues.

Now on slide five, software net revenue totaled a record of R\$ 24.6 million in the quarter, plus 1.2% versus 4Q17 due to a 10.9% increase in subscription net revenues, which were also record. The result mainly reflects growth in investment areas due to a large implementation in the Company's biggest customer, besides the addition of R\$1 million from ConsultBrasil, acquired in 4Q18.

It is worth recalling that the performance was not better due to the impact related to customers from the asset management area that reduced operations in Brazil, as described in other earnings releases.

In the year, software net revenues were R\$ 90.2 million, -1.2% versus 2017. Despite the record in subscription revenues, there was a drop in net revenues from implementation and customization. This result reflects the conclusion of recent implementations, mainly in areas of investment and pension plans, which started to generate subscription revenues.

It is worth recalling that we have adjusted our commercial model to mitigate customers' switching costs, subsidizing part of the setup with the exchange of implementation and customization revenues in the short term for subscription revenues in the medium term, which will temporarily pressure the revenues and the units' profitability.

As a result of the increase in the RD&I investments, +R\$ 1.1 million, and the consolidation of ConsultBrasil, + R\$ 0.9 million, software gross profit reached R\$ 11 million in the quarter, -12.7% versus 4Q17; and gross margin of 44.7%, -7.1 p.p. In the year, gross profit reached R\$ 41 million, -5.2% versus 2017, with a gross margin of 45.4%, -1.9 p.p. versus 2017.

Despite the reduction virtually in all software areas, the increase of R\$ 2.5 million in RD&I hinders the annual comparison since they are fully booked in the results of this unit. Again, we emphasize that the loss of profitability



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was due to a management decision, aiming to increase the long-term results with the technological update of part of the softwares from acquisitions.

Moving to slide 6, on the left, we included important information for you. The portfolio of recurring software contracts, including those not yet implemented, reached R\$ 88.1 million at the end of 2018, against R\$ 76.9 million in the same period of 2017. There was an addition of R\$ 11.2 million, or plus 14.6% versus 2017, which represents sales minus cancellations, plus readjustments.

This means that, when sales made in 2018 have their deployment complete, Sinqia can resume organic double-digit growth. Recalling that these figures do not include ConsultBrasil's R\$ 4.4 million. As pointed out, this growth in the portfolio is directly related to the expansion in RD&I investments and the adjustment to commercial model, with positive effects on the future organic growth of Sinqia.

On the right, we included quarterly costs with RD&I. As the software from acquisitions made in recent years were in different stages of technology, we began a broad upgrade to provide our costumers with the most desired financial technology experience. We invested more R\$ 2.5 million in 2018, totaling R\$ 3.2 million against R\$ 0.7 million in 2017, a figure that is expected to continue growing in 2019, which satisfies short-term profitability, seeking higher growth in the mid-term.

Now, on slide 7. Services net revenues recorded all-time high R\$ 15.1 million in the quarter, plus 22.9% versus 4Q17; and a record of R\$ 51.9 million in the year, +19% versus 2017. The two-digit growth, both in the quarter and in the year, is related to outsourcing records with strong demands for allocations.

As a result, associated with costs under control, services gross profit was record R\$ 3.8 million in the quarter, a strong increase of 31% versus 4Q17, with a gross margin of 24.9%, plus 1.5 p.p. versus 4Q17. In the year, it reached a record of R\$ 11.9 million, a huge increase of 58.9% versus 2017, with a gross margin of 23%, plus 5.8 p.p. versus 2017.

On the other hand, the financial position on slide 8. On the left chart, the gross cash position showed a balance of R\$ 26 million in the 4Q18, an increase of R\$ 0.6 million versus the previous quarter and a decrease of R\$ 4 million versus 2017. This decrease in the year is manly related to the growth of the balance of account receivables.

Gross debt divided into obligations from acquisition and borrowings presents balance of R\$ 32.9 million in the 4Q18, less R\$ 1.5 million versus the previous quarter, related to the amortization of installments resulting from the acquisition of Attps and payment of financing contracts with the Brazilian Development Bank (BNDES). The decrease of R\$ 7 million versus 2017 is mainly related to the payment of installments of financing contracts with BNDES.

As a result, net debt recorded a balance of R\$ 6.9 million in 4Q18, a R\$ 2.4 million decrease versus the previous quarter and a R\$ 3 million decrease versus 2017. This represented only 0.4x adjusted EBITDA over the last 12 months versus 0.5x net debt/ adjusted EBITDA in 3Q18 and 0.5x net debt/adjusted EBITDA in 2017, remaining at a comfortable level.

Even after ConsultBrasil acquisition, in October, there was room to increase leverage to continue acquisitions. For this reason, we made an issuance of debentures explained at the beginning of the presentation.

To conclude on slide 9, I would like to say that we have taken on the challenge of being one step ahead in 2018, with significant increase in our RD&I investment and subsidy to set up new software sales to boost organic growth. Also, we acquired two companies, still in the integration process that can contribute to EBITDA and margin expansion when they are concluded.



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And finally, we point out that we will continue the consolidation process. The resources raised in the recent issuance of debentures will allow new acquisitions. We would not have sought funding if we are not convinced that there are many M&A opportunities, even in the short-term. We will continue in our successful track with more strength and speed from now on.

Once again, thank you all for your presence, and our team is at your disposal to clarify your questions. Thank you very much.

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