



**Local Conference Call
Springs Global
Second Quarter 2018 Earnings Results
August 16th, 2018**

Operator: Ladies and gentlemen, thank you for waiting. You are welcome to the audioconference of Springs Global to discuss the results of the second quarter of 2018.

Thank you for standing by. At this time, all participants are on listen-only mode. Later we will conduct a Q&A session and instructions to participate will be given at that time. If you should require assistance during the call, please press the star key followed by zero, and the operator will give you assistance. To obtain a copy of the press release, of the financial statements and the webcast presentation, please go to Springs Global website: www.springs.com/ri.

Before moving on, I would like to mention that the statements include descriptions regarding the intent, belief or current expectations of Springs Global or its officers with respect of the results of operations and financial conditions of the company and subsidiaries. Investor are cautioned that any such forward-looking statements are and will be as the case may be subject to many risks.

Now today we have Mr. Josué Gomes da Silva. Please, I would like to turn over to Mr. Josué.

Mr. Gomes: Good morning everyone, thank you very much. We are here myself, Alessandra, Cristofanilli, and it is an honor to be able to talk about our results for the second quarter to those who are listening to us.

You have received the results informed on the 14th at night, and I am sure that you probably have a lot of questions. And so I'm going to start by listing some of the factors that had a negative impact and others that led to a positive impact in the results of our second quarter.

Obviously, the wholesales in South America we had impact of the truckers' strike, which had an impact in the sales of May and June, it also had an impact on consumer trust and on retail. Also, the currency devaluation in Argentina and the current recession in Argentina also had a considerable impact in our operations in Argentina. The World Cup, which obviously during the games, especially when Brazil played, especially because of the times the games were played, retail sales went down significantly. Also we had a decrease of minimal temperature in May



and June, actually, the temperatures were higher than normal, and also we have the price of filling fibers, recycled filling fibers, the cost was not stabilized and that had an impact on our margins. We expect this will be stabilized in the third quarter and that will be combined to significant increase sales with a resetting of our exhibit and that will definitely lead to better results in North American operations in the third and fourth quarters.

A positive aspect in this quarter, which will still be observed in the third quarter, are first of all sales of our e-commerce and they now significantly contribute for our physical stores sales, and so in the results of the 15th days of August and even in July we can see a strong reaction of our sales, not only of e-commerce, but now e-commerce is contributing more and more for our physical stores sales.

I'd like to remind you that in September last year we informed all of our franchisees that we were launching the concept of digital franchises, we started operating a digital franchise model in January, but obviously not all of the stores were integrated to the digital franchise system, but even so the deliveries of our e-commerce sales were made by means of the stores and today in July correspond to ~~60%~~ (65%) of our e-commerce sales, and they are delivered or retrieved at the stores,

And this is also making a difference for the sales in our physical stores, and until yesterday the sales had a growth of over 20% when compared to the 15th first days of August of last year.

And so e-commerce sales are doing really well, above ~~40%~~ (140%), we are accelerating our e-commerce sales and have been able to launch our e-commerce at the Santista website in record times using the same platform, but with a larger selection of products than the other 2 brands offered in our e-commerce channels. Santista offers a larger scope of products. In fact, we can see some stabilization in the price of filling fibers or recycled filling fibers, and that in combination to an expressive increase in sales of our main clients in the US with exhibit in ~~horizontal~~ and vertical (instead of horizontal), and so we will definitely have better performance in the second and third quarter in the US.

And it is important to highlight here that we have had good profitability of our assets, we opened the first store in Natal, the store was inaugurated last week, it is a very large home center, with a wonderful brand, the success in sales of the first days are amazing, we have people lining up to buy and also to obtain credit to buy, so we can already see the commercial value and that side-by-side with Assai has generated employment and sales higher than R\$200 (260) million per year.



We have 6 other negotiations, rental negotiations, and we are about to sign the contracts and that will lead to over 70% of our home center (power center) area, which has been leased and occupied and we will soon launch an outlet right by the home center (power center), whose architectural project is very beautiful, with a very low retrofit cost and will definitely attract a lot of consumers and retailers, and that is going to be the first and main outlet in the city of Natal, which is an important city.

So with these positive factors we are very confident about the future. Obviously, we remain concerned about the macroeconomic situation in Argentina, and it is true that the Argentine peso has been stabilized at loss value, but it has been stabilized in the last few weeks. We expect they will be able to find a gradual recovery of their economy, but the fact is that we now operate in Argentina in a situation where we had to decrease our productions to face the market and we are concerned about liquidity in the chain, and today with the interest rates in Argentina we have a risk, which is obviously in terms of credit, which is relatively high when compared to some of our clients.

Of course, we have large clients, multinational clients and retailers, but we also have some wholesalers, but this is a concern today for us and sometimes we refrain our sales so that we can guarantee that we will be able to receive payment.

Regarding Argentina, the Brazilian operation as the controllers, 100% controllers of the Argentine operation, so in terms of the working capital in Argentina we have the supply of fabrics, finishing products, so Argentina with relatively long payment time frames and so they own... the Argentina branch owns us in dollars and whenever there is a decrease in the exchange rate this will have a strong impact on their financial expenses in Argentine pesos.

These expenses are owned to the headquarters, and for us of course we take reals into account, and so of course that has an impact on our statements here in Brazil, obviously we have a receivable accounts in dollar and of course whenever there is a devaluation it is in terms of the real compared to the dollar, and not for the peso compared to the dollar, and that has an impact and leads to a negative result in Argentina because of the working capital whenever we have significant devaluation.

So these are the main initial observations I'd like to make.

I will turn over to Alessandra so that she can't get into details of each of the different business units, and then at the end I will be here to answer any eventual questions you may have.



Ms. Alessandra: Good morning everyone. In slide 3 we present the highlights for the second quarter 2018 where we had a net revenue of R\$523.7 million with an expansion of our gross profit and gross margin. EBITDA added up to R\$54.8 million with an EBITDA margin of 10.5%. The net income was R\$8.9 million with an increment of R\$5.8 million year over year. E-commerce revenue more than doubled year over year, as shown in this slide number 4.

In 2017 we launched the new MMartan website and also the Artex website, in January this year we launched the digital franchise, which was very successful. Success is measured not only by the strong growth in sales, but mainly because of the alignment of interest with our franchises, which also participate in the increase in sales of our digital franchise leading to better purchase experience because they can decide where to buy and where to receive or retrieved the products with the same quality of service and also with the same (better) costs and deadlines.

In the slide number 5 we show the growth of our digital channels, which started in 2016 with the launch of MMartan app, and then we had a growth of 500% in sales from July 2016 compared to July 2018, and we have more for this year we are going to comment that at the end of our presentation. That will contribute to a strong growth of our sales in digital channels.

In slide 6 you can see the evolution of the consolidated results of the company. In slide number 7 we have a result for the different segments in June 2018 (LTM - last twelve months) and the main segment South American wholesale represented 55% of our income and 77% of our EBITDA. And as shown in slide 8, we had an increase in the average price year over year for all products and we also had a higher share of added value products in our sales mix with a positive impact in the average price and the gross margin.

EBITDA added up to R\$~~55.8~~ (54.8) million, ~~R\$7 million~~, and in slide 9 you can see the results, in slide 10 you can see the operating cash generation measured by EBITDA. The EBITDA in the last 12 months added R\$248.2 million, (stable) when compared to the same period last year.

In slide number 11 you can see the working capital, which added to R\$ ~~956~~ (935) million and that was influenced by a reduction in accounts receivable, and we are now going to present the highlights according to the different segments.

We had a decrease of our net revenue for the South American wholesale, which was negatively impacted by the truck drivers' strike in Brazil and also by the recession in Argentina. In the quarter we had a higher share of bedding tabletop



and bath products with higher added value in our sales mix.

Our EBITDA was R\$44.3 million, which is 9.7% superior than the second quarter 2017, the EBITDA margin increased to 16.7% when compared to 13.1% in the second quarter of 2017.

In slide 13 we can see that the ~~growth revenue was 264.5~~ (gross profit totaled R\$77 million and gross margin was 29%, both with year-over-year growth) and regarding South America retail, in slide 14, the sellout revenue was about 3% higher than the same period in the second quarter of 2017. The net revenue totaled R\$58.8 million, which is in line with the revenue for 2017.

As mentioned, e-commerce revenue more than doubled year over year, in the second quarter we opened 3 new stores and had one conversion of one store into a franchise.

In slide 15 we can see that there was an expansion of growth revenue and gross profit. In slide 16 we show you the progress of our retail strategy. We started working with retail in 2009 when we purchased MMartan. In ~~2012~~ (2011) we launched the Artex stores and expanded our B2C. In 2017, we established a dedicated team to work with digital channels. In 2018 we launched new channels and digital services internally developed technology, and more recently with the Santista e-commerce and the PIX system.

In slide 17 we present our PIX system: the point of incredible experience. It is a system of stores with a multi-channel concept, and that is used in our physical stores and our multibrand clients enabling personalized services based on previous purchases or according to the profile of the mapped client. The PIX system will be present in all of our stores by the end of the third quarter.

As illustrated in this slide 18, the system empowers sellers offering a better shopping experience to customers. It enables sellers to have total control over sales, with that we have a win-win situation: consumers have a better purchase experience, our franchises can maximize their income, and our retailers may become PIX fulfillment centers.

Now, regarding North America wholesales, it had a positive impact of the exchange rate as shown in slide 21, we had a decrease of our gross profit, as shown in slide 22, and that is because of the impact of the cost of polyester.

In the slide 23 we present the main opportunities for 2018. The first one is expansion of consumption in sales of other products leveraged by the recovery of



the economy in Brazil, we also expect to have an expansion of e-commerce sales due to digital franchises and also to investments in digital marketing.

We also expect to have sales increase by an increase in the number of franchise stores, and we are going to use the installed capacity of our plants to help dilute fixed costs and consequently obtaining better operational margins. We will continue our deleverage process resulting from the process mentioned before with the reduction of the debt cost and monetization of nonoperational assets.

In slide 24 we present the launch of Santista's digital store in August 2018. In slide 25 we highlight that our main strategy is to place the consumer in the center of our business enabling the strengthening of our brands by means of the generation and maintenance of true and long-lasting relationships creating value for the company.

Thank you very much and we are available to answer eventual questions you may have.

Question-and-answer Session

Operator: Ladies and gentlemen, we are going to start our Q&A session only for analysts and investors. To have a question, please press star 1. Questions will be answered in the order they are received. If at any time you would like to remove yourself from the questioning queue, please press star 2.

Mr. Gomes: Before receiving any questions, I would like to talk a little bit more about the PIX system.

When we purchased MMartan in 2009, MMartan had a storefront system which was developed internally, it was a very good system, it was very well developed, which is the FGB, and then after improvements and investments, it is today still the system that operates the franchises and own stores, and that also leads to a possibility of store management integrated to our e-commerce and that has allowed us to develop the digital franchise concept transforming all of our stores into delivery centers for our products, or else, enabling customers to buy through the digital channel and retrieve their products at the physical store, keeping in mind the integration of inventories and prices using a single system.

We had to improve the FGB platform and, therefore, we chose to develop it within an Android platform to enable better integration between the digital channel and the physical channel, the physical store, enabling a concept of a multi-channel concept actually.



In addition, keeping in mind the new platform running on an Android system, with mobile profiles we created tools which make it a lot easier for sellers, they actually empower our sellers, we have training tools and game system which gives courses and awards to sellers teaching them not only about the collection or about how to talk about each one of the different features of the products, but training them to use this learning in their sales, indicating what consumers bought the last time and what we should suggest by means of artificial intelligence for their next purchase, and that integrated to the concept of digital franchise showed us that we had in hand something that could add a lot to our relationship, not only with our own stores and franchises, but also with our multibrand clients.

We have over 7500 multi brand clients in Brazil, and that's why we decided to make PIX available to all of our multibrand clients wishing to deliver our products. Of course, the progress that they already work with or other products they want to buy from us so that they can deliver our products sold in our digital channels.

And the welcome of this announcement during our showroom was very good, we have a list of multi brand clients willing to test PIX. The installation is very simple, the system is very friendly, very easy to use and the cost of learning is very low because it is in fact very simple to use, and so the use is absolutely natural for users, and today anyone operating an intelligent or smart phone actually was the same kind of use, and so the operating cost is very low, there is no special installation and if you want to use any mobile phone running on Android (and they are actually even cheaper than those running on iOS), the PIX is perfectly adapted, and if sellers want to make payments or charge clients and receive the amount to avoid the store from having cash, then they will need to have a device with a credit card either with a magnetic the or a chip.

But the fact is that PIX will empower sellers of our stores whose sales are increasing, and as I said, until yesterday the month of August we had an increase in physical stores of 36.2% (and 27,6% same store sales growth), keeping in mind that e-commerce is also leveraging our sales in our physical stores, and yesterday we had an increase of sales, e-commerce and our physical sales, and so we realized that we should offer this tool to our multi brand clients, enabling them to improve their sales and also becoming point of sales for the Santista and Artex brands, which are products sold in multi-brands.

And today we have already tested our digital franchise concept, which represents 65% of the services provided in our electronic site, and our physical stores have also benefited from it because clients have to go to store or start buying at the store, which is something that they didn't used to do before, and so PIX becomes not a product, because we are not the company which will necessarily sell a



software, this is not the purpose here, but the purpose is to better train our sellers to provide them with tools and including our multi brand retailers with information and training on the products we have, bedding, table top and bathing, but also allowing our brands and the features of our products, giving them a unique opportunity to participate as distributors of our sales including our digital channel.

So one thing led to the other and we realized that we had in fact something important in our hands, something which is very relevant so that we can expand our concept of an integrated digital system and physical stores with a deep penetration in Brazil to sell our products.

I think this is important, our next Spring's Day is going to be dedicated to this multi-channel concept, we are a concept with very relevant brands, a portfolio of products which is wonderful, and so it's a huge opportunity to provide them with a technological infrastructure, to deliver products to our end consumers, which is more and more competitive, modern, and we are now open for questions.

Operator: I'd like to remind you that to ask questions you should dial star 1.

Mr. Gomes: We have some questions sent by the webcast and I will try to answer those who came through the system. The first one is regarding the real estate in Natal. I have said that obviously we are not investors in the real estate area, we have this industry which was shut down and other plants modernized and had enough capacity and no longer needed that space, and in fact it was an industrial unit located in a Metropolitan region, a large Metropolitan region in an area of this Metropolitan region, which increased fast, and because of the new airport, the new international airport in the city which moved to the municipality where this industrial unit is located and therefore became a mandatory way for people to go and therefore we decided to shut down the industrial unit and eventually plan the sales or even a business development because we clearly saw that there was a vocation for that area, especially the front of the land with approximately 400,000 m².

And so, we contacted different real estate investors, but probably because of the economic downturn Brazil is going through our went through in the last couple of years, they had some interest, however, the prices they offered was much lower than what we believed to be the true value for that investment, at least in terms of the land that was there and the construction available, and so we started showing the value by leasing contracts.

So the question asked is: It worthwhile leasing or selling? Well, it depends, if we have the right prices, we will not resist selling. What I can tell you is that we are doing to have rental revenues which are higher than R\$20 million per year in a very



short period of time. We are convinced about this, R\$20 million per year we are talking here about a real estate profit in the order of R\$500 (250) million. This revenue will be obtained for a fraction of this 400,000 m², so we still have a lot of the land available for other investments.

So theoretically it should be worth more than that, and if somebody comes and offers us a fair price and become our partners or, you know, we will not have any restrictions in selling or establishing a partnership.

But what we saw was that, in fact, without the occupation, the amounts were very low, and now the occupation and the transparency we have for land that has been occupied and in the past it was an area behind walls and nobody could see what was behind the walls, and so we have had... with the improvement of our economy we will have people interested, and actually we have even people who show their interest with lower prices in the past, but we will have many other companies willing to offer a better price for the generation of employment and income.

Operator: The next question is from Pedro Ruppenthal, investor.

Mr. Ruppenthal: Hello Josué. My question is about the North America sales. Last year we had sales which were demonstrated or improved now in June, and another aspect has to do with the recycled polyester fiber. So I would like to know what you foresee in terms of the fibers, in terms of prices. And also, I wanted to know about the Chinese products and if that will affect any of the products distributed by you.

Mr. Gomes: Pedro, it was difficult to listen to you and I believe that I understood at least part of your questions. I think you asked us about polyesters, Trump's policies and the sales of our products in the US. I will try to answer you, I don't know whether it was your phone or a problem here, but it was difficult to listen to what you said.

At the end of last year China adopted a much more restrictive policy for the imports of products to be recycled, and this had an impact on the imports of pet bottles in China where we had the highest production of recycled polyester, and obviously the price of recycled fibers went up and the discount decreased when compared to virgin fibers, also there was an increase in the price of virgin polyester fibers because the price of oil went up, petrochemicals went up and the fixed price for polyester also went up a little bit.

Of course that the installed recycling capacity in China is being reinstalled in other countries, these installations are not very sophisticated and do not take many years to be built, and therefore the prices of recycled fibers, internationally



speaking, tend to go back to the same levels we had over time. We already expected this to happen in the third quarter, but we still have not balanced out yet.

We believe that it will take place soon, we had an impact on the gross margin which is being mitigated by a few things we are doing, one of them is investments in Capex in the US with relatively fast returns and pay back lower than one year and a half, with a strong automation in the final packaging of our filling products in the US, this will lead to 2 cost reductions: First of all, you decrease a little bit the packaging cost, and you also decrease the cost of labor with packaging. This labor has one of the highest turnover rates at our plants because this labor is demanded by distribution centers of e-commerce. We have, for example, at one of our plants in Virginia in an important city, which is a hub for e-commerce as, for example, eBay and therefore the demand of labor for distribution is relatively high.

This automation is also aimed at reducing the demand of labor and the movement of materials with automation. We are actually 2 of the areas where we have a higher turnover. Of course, there is a delivery time for this equipment, these machines are automated, there is a delivery time and we expect the results to be significant in terms of cost for the second quarter of 2019, but we are taking mitigating actions, so we are not only waiting and counting on a decrease in the prices of recycled fibers when compared to virgin fibers.

We are also investing in Capex, better productivity, leading to cost reductions which will make sense for us and we have been doing this successfully, I would say. And furthermore, we are testing a product with a special packaging, we have also bought automated machines to do this, and if it works it will be available at the point of sale and that may represent gains for our retailers with freight because it will decrease freight costs, which is very important for them because they also suffer from cost pressure, and this will also be a significant cost decrease with packaging.

We are testing it in August, in about 100 stores of one of our main retailers, and I think there is an important promise in terms of share again, cost reduction. So we have a set of important initiatives in the North American initiative to mitigate the impact of the increase in raw materials, it was observed not only for recycled fibers, but for virgin fibers, but with the recovery of our sales, of the sales of our partners, you know, North American economy is doing well, it is increasing, it is generating employment.

Today, North American economy is not demonstrating any weakening, but of course, in an economy like this the need of filling products, which is what we do in the US, are basically met, and so the growth will not follow the growth of the



economy, the growth is organic and marginal.

We are selling well. What happened was that our main client finally resumed the organization of their shelves according to their previous model, they made an attempt to reduce operating costs in the store and the attempted led to a reduction of operating costs, but it's also caused a significant sales decrease in filling products, including pillows. Not only for us, but for our competitors which sell to this retailer, and then after a while they saw that their loss in sales was higher than their gain in operating costs, and so they went back to their former model and now in June, July and August they have had 2-digit increases, and so they have higher SKUs and more visibility to all SKUs. This has been very positive.

Now regarding Trump's policies and this commercial war with China, so far, we have not had any over prices in the components we import from China, but the war has escalated, there was a first list of products, after that they announced a second list of products, since textile products including. We haven't been reached by it so far, but eventually we may be and what we are doing is we are developing other supply channels in other regions which eventually would not be affected by this business war.

I would also say that Trump's tax policy has helped us, and today if we analyze the policies adopted by Trump's government have been more positive for our business in the US because eventually they say that they will increase the list of products to be taxed, but it hasn't happened by now.

I hope I have answered your question Pedro.

Operator: I'd like to remind you that to ask questions you should dial star 1.

Mr. Gomes: We have one more question from the webcast about the impact of our exchange rate devaluation. So there are some facts that lead to this impact. Fact number 1: The devaluation of the Argentine peso compared to the dollar. It is translated in the consolidated statement, and as I mentioned before, this effect is partially offset because in fact it is the peso against the dollar where our subsidiary in Argentina owns to the Brazilian headquarter and the Brazilian headquarter benefits from the devaluation of the real in face of the dollar, which was much lower than the devaluation of the peso against the dollar, and so, this is part of the reason.

And the second fact is that sometimes we have North American operations and Brazilian operations, and the North American operations has generated positive cash, the investments are relatively small, the optimization of working capital is low



because of the characteristics of the market and the type of products we manufacture, and this free cash is lent to the Brazilian operation, but is still based on the dollar, so the Brazilian operation gains for the wind of the exchange rate devaluation with an operation which is controlled by it in the United States, and of course, we have some contracts with pre-payments which are paid with exports. Exchange rate devaluation does not worry me. In fact, it improves the competitiveness of our industrial plants in South America, so the actual rate is what really matters. In Argentina there has been a race where there are significant nominal devaluations also affected by increasing inflation.

In Brazil it's different, our inflation rate is controlled, our inflation rate is within the established goals so the market is making some adjustments and not only for the 2018, but for 2019, and we have been within the goals. And so this devaluation of the exchange rate in Brazil is actually totally real, and this is good for the company even though in the short time it may have an impact on finance expenses.

It's not cash, it's just an adjustment to be made in (Brazilian) Reais (the function currency) for Springs Global Participation.

Operator: Ladies and gentlemen, we now conclude our Q&A session. I turn over to Mr. Josué for his final concentrations.

Mr. Gomes: I would like to thank you all to participate in this audio conference and of course we are available, Alessandra is available to answer any eventual concerns, questions.

Please, visit our MMartan and Santista (websites) stores, I'm sure you will have a wonderful experience with very competitive prices and very fast deliveries using our partners' network, or physical stores, digital stores and we will from now on include our multi brand retailers. I hope to see you soon in our Springs Day or for the third quarter conference.

Operator: We now conclude the Springs Global's audio conference. Thank you very much for your participation.