Earnings Release 2Q18

PortobelloGrupo

PBG S.A.

PRESS RELEASE 2Q18

August 9th, 2018

Stock Price (06/30/2018)
PTBL3 - R$ 3.73 | share

Market value (06/30/2018)
R$ 591 millions
U$$ 153 millions

Quantity of shares (06/30/2018)
Common: 158,488,517
Free Float = 46.0%

Investor Relations

John Shojiro Suzuki
Deputy Chief Operations Officer
Chief Finance and Investor Relations Officer

Gladimir Brzezinski
Controller and Investor Relations Manager

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In thousands of Brazilian reais - R$, unless otherwise stated

CONSOLIDATED EARNINGS RELEASE 2Q18

Tijucas, August 9, 2018. PBG S.A. (B3 S.A. - BRASIL, BOLSA, BALCÃO: PTBL3), **Brazil's largest ceramic tile company**, is submitting its earnings release for the second quarter of 2018.

The consolidated interim financial information reported herein is derived from PBG S.A.'s consolidated quarterly financial information, prepared in accordance with the standards issued by the Accounting Pronouncements Committee (CPC) and the International Financial Reporting Standards (IFRSs).

HIGHLIGHTS

	R$ million	1H17	1H18	▲%
PERFORMANCE	Gross revenue	618	631	2.1%
	Net revenue	**494**	**512**	**3.6%**
	Gross margin	*41.4%*	*40.7%*	-0,7 p.p.
	EBITDA	**103**	**195**	**90%**
	EBITDA margin	*20.8%*	*38.2%*	17,4 p.p.
	Profit	**42**	**103**	**148%**
	Net margin	*8.4%*	*20.2%*	11,7 p.p.
	ROCE	**14.0%**	**20.5%**	**6,6 p.p.**
Debt	**Net Debt**	**427**	**446**	**4.4%**
	Net debt-to-EBITDA	2.58	1.58	-39%
PTBL3	**Quotation**	**3.11**	**3.73**	**20%**

TELECONFERENCE
(Portuguese Only)

Tuesday, August 14, at 10 a.m.

Data for connection:

Phone: +55 11 3137-8043
Password: PORTOBELLO

WEBCAST

The teleconference audio will be broadcast on the Internet, accompanied by a slide show.

Both will be available 30 minutes in advance at:

www.ri.portobello.com.br/

- **NET REVENUE** of **R$ 512** million, up by **3.6%** over 1H17;
- **GROSS MARGIN** of **41%** in 1H18, **similarly** to 1H17;
- The federal government acknowledges PBG's right to the IPI premium credit in the lawsuit "**POLO ATIVO**", with an impact of **R$129.6 million** in operating income (loss);
- **EBITDA** of **R$195 million** in 1H18, with a margin of 38.2%. Increase of **90%** and 17.4 p.p. above the margin, when compared to 1H17;
- **PROFIT** of **R$103 million**;
- **Reduction** in **Net Debt-to-EBITDA ratio** from 2.58x (in 1H17) to **1.58x** (in 1H18); **DEBT** reaches R$446 million and debt profile is extended at the end of the 2Q18;
- **Increase** of **6.6 p.p.** in **RETURN** on Invested Capital, ending the quarter at **20.5%** (14.0% in 1H17);
- **PTBL3** shares reach **R$3.73** at the end of 1H18 (R$3.11 in 1H17); **appreciation of 20%** and increase of **102%** in the average financial trading **volume** in the past 12 months.

MANAGEMENT'S COMMENTS

PBG ends the second quarter of 2018 with an above-expected performance, especially when considering the nationwide truck driver's strike within the period. However, the challenge of monetizing the existing assets and reaching the maturity of the new business remain. The focus on increasing profitability and strengthening competitive advantages is internally maintained, in order to optimize the enterprise value and consolidate the brand leading position. The Brazilian economy is oscillating, and 2018 is being an inconstant year, which causes instability in terms of sales projection and market sensitivity. Accordingly, the Company believes that maintaining the high export revenue contributes to diversifying the revenue origin and support the consolidated profit.

In 1H18, net revenue totaled R$512 million, up by 3.6% over 1H17. After almost three years with stagnant sales, 2018 shows a growth in sales volume. Sales in the foreign market continue to stand out. Since the second quarter of 2017, the Company has been recording average quarterly revenue of US$15 million. In 2Q18, we attained a new quarterly record of US$17 million, up by 13% against 2Q17. In Brazilian reais (R$), there was growth of 26% when compared to 2Q17.

In the domestic market, net revenue in the 1H18 was 1.4% lower when compared to the same period in the prior year, mainly due to the drop in sales of real estate construction and development companies. According to Abramat, the finishing construction material market's deflated turnover dropped by 0.5% between 1H18 and 1H17, posting a real drop by 9% between May/17 and May/18, due to the nationwide truck driver's strike.

We continued to focus on sales of a more profitable product mix in the domestic market, despite the lower sales volume. The consolidated gross margin of 41% is similar to the 1H17's.

Cash generation, measured based on the EBITDA, totaled R$195 million and profit reached R$103 million in 1H18, with margins of 38% and 20%, respectively. EBITDA grew by 90% when compared to the 1H17, positively affected by the recognition of the favorable outcome in the lawsuit "Polo Ativo" (described below in the operating income (expenses) and EBITDA table). Should those effects be disregarded, the EBITDA margin and net margin in the 1H18 would be 13% and 3%, respectively, similar to 1H17's.

Portobello Shop maintains its plan on expanding the exhibition area. The network relies on 141 units located in almost all Brazilian states, out of which 11 are own units. The own stores posted the highest historical revenue volume in the 2Q18. The structuring of the area is in progress to strengthen the model and expand autonomy and speed.

The Officina project shows business development, focused on operation and service stability. In April, sales have begun in the operation in São Paulo, which impacts are expected for the 2H18.

As to Pointer brand, the sales growth is noticeable when comparing the 1H18 and the 1H17. The mix qualification and increase in inventory turnover have been leading to more qualified sales at better prices. The unit performance is above that expected by Management for 2018.

In Tijucas, the industry is focused on a more superior production mix. But, at the end of May, the truck driver's strike caused a loss of approximately 500 thousand m².

The net debt-to-EBITDA ratio posted a drop to 1.6 times (2.6 times in the 2Q17). The Company focused on the debt profile extension in the 2Q18, posting the highest funding volume ever reached. In June 2018, the Company conducted the 3rd issue of debentures in the total amount of R$300 million.

Investments are being gradually resumed, focused on sustaining the strategies designed to improve the product mix and margins, without capacity expansions. When compared to 1H17, investments were three times higher.

At the quarter end, Return on Invested Capital was 20.5%, posting 6.6 p.p. growth in the past 12 months.

The Company maintains its endeavors oriented to operational improvements, with confidence in its strategy focused on retail trade and brand building. The organizational structure changes continue so as to strengthen the Company's retail culture. Teams are focused on seeking excellence in key skills and working in a more collaborative way.

In thousands of Brazilian reais - R$, unless otherwise stated

ECONOMIC AND FINANCIAL PERFORMANCE

	R$ thousand	2Q16	2Q17	2Q18	▲%	1H16	1H17	1H18	▲%
PERFORMANCE	**Gross revenue**	**328,957**	**321,485**	**327,669**	**1.9%**	**636,401**	**617,688**	**630,877**	**2.1%**
	Net revenue	256,575	258,528	266,154	2.9%	497,936	494,162	512,055	3.6%
	Gross profit	**87,058**	**108,697**	**110,145**	**1.3%**	**176,630**	**204,574**	**208,416**	**1.9%**
	Gross margin	33.9%	42.0%	41.4%	-0,6 p.p.	35.5%	41.4%	40.7%	-0,7 p.p.
	EBIT	**20,706**	**40,261**	**150,003**	**273%**	**33,367**	**83,138**	**173,612**	**109%**
	EBIT margin	8.1%	15.6%	56.4%	40,8 p.p.	6.7%	16.8%	33.9%	17,1 p.p.
	Finance income (costs)	(18,873)	(10,095)	(5,397)	-47%	(38,493)	(25,540)	(20,600)	-19%
	Profit	**4,040**	**21,876**	**96,415**	**341%**	**(2,180)**	**41,748**	**103,411**	**148%**
	Net margin	1.6%	8.5%	36.2%	27,8 p.p.	-0.4%	8.4%	20.2%	11,7 p.p.
	EBITDA	**30,447**	**50,094**	**161,026**	**221%**	**52,500**	**102,814**	**195,480**	**90%**
	EBITDA margin	*11.9%*	*19.4%*	*60.5%*	41,1 p.p.	*10.5%*	*20.8%*	*38.2%*	17,4 p.p.
RATIOS	Current liquidity					*1.31*	*1.26*	*1.59*	0.33
	Net debt					554,416	427,309	446,054	4.4%
	Net debt-to-EBITDA					*4.01*	*2.58*	*1.58*	(1.00)
	Net debt-to-equity					*2.33*	*1.50*	*1.23*	(0.27)
PTBL3	Closing quotation					2.31	3.11	3.73	20%
	Market value					366,108	492,899	591,162	
	Monthly trading volume (R$). Average from the past 12 months.					6,682	25,514	51,644	102%

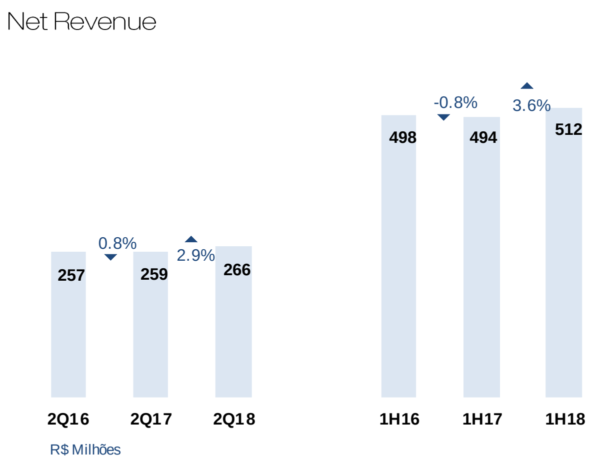
Net revenue

	2Q16	2Q17	2Q18	▲%	1S16	1S17	1S18	▲%
Net revenue	**256,575**	**258,528**	**266,154**	**2.9%**	**497,936**	**494,162**	**512,055**	**3.6%**
Domestic Market	216,002	209,310	204,024	-2.5%	418,495	404,106	398,445	-1.4%
Foreign Market	40,573	49,218	62,130	26%	79,441	90,056	113,610	26%

The consolidated net revenue totaled R$ 266 million in 2Q18 and R$512 million in the accumulated, up by 3.6% when compared to the previous year. After a month (May) affected by the truck driver's strike, sales have shown signs of recovery and a monthly record sales volume was posted by the Group in June.

Sales in the domestic market accounted for 77% of total revenue (81% in 2Q17) and the amount in Brazilian reais (R$) was 2.5% lower than in the 1Q17. In the 1H18, sales in the domestic market dropped 1.4%.

In the foreign market, sales grew by 26% against 1Q17 and 1H17. Exports in 2Q18 attained the quarterly record of US$17 million, roughly 13% higher when compared to the same period in the prior year.

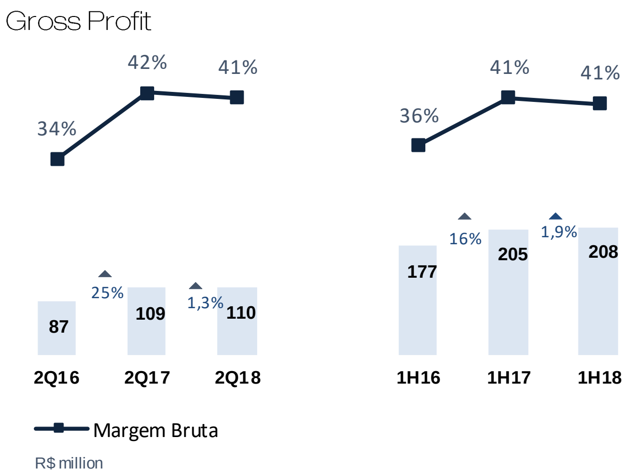


In thousands of Brazilian reais - R$, unless otherwise stated

Gross Profit

In 2Q18, gross profit totaled R$110 million, similarly to 1Q17, which is virtually equal to the prior year. The 1H18 posted a growth by 1.9% compared to the 1H17.

The gross margin remained at 41% as a result of a sales mix involving more profitable products and price structuring and category management actions.



Operating Income (Expenses)

Selling expenses totaled R$73 million in 2Q18 and R$137 million in 1H18, up by 17% when compared to 2Q17 and 15% when compared to 1H17, respectively. The ratio to net revenue in the 1H18 is 27% and posts a growth by 3 p.p. between the 1H18 and 1H17, as a result of the research on the Company's new business and restructuring to reach a new growth level. The Company adopts a cost decrease and revenue increase plan to reach the percentage of selling expenses appropriate to the operation.

	2Q16	2Q17	%RL	2Q18	%NR	▲%	1S16	%RL	1S17	%RL	1S18	%RL	▲%
Operating expenses	**(66,352)**	**(68,436)**	**26%**	**39,858**	**-15%**	**-158%**	**(143,263)**	**29%**	**(121,436)**	**25%**	**(34,804)**	**7%**	**-71%**
Selling expenses	(59,609)	(62,407)	24%	(73,066)	27%	17%	(120,755)	24%	(119,093)	24%	(136,891)	27%	15%
General and administrative expenses	(9,705)	(8,844)	3%	(10,043)	4%	14%	(18,616)	4%	(17,119)	3%	(19,303)	4%	13%
Other income (expenses)	2,962	2,815	-1%	122,967	-46%		(3,892)	1%	14,776	-3%	121,390	-24%	

Administrative expenses totaled R$10 million in 2Q18 and R$19 million in 1H18. As to revenues, it maintains the ratio of 3.8% to net revenue when compared to the same period of the prior year and the rate grew by 0.3 p.p. The Company believes that this is the amount appropriate to currently support its operations.

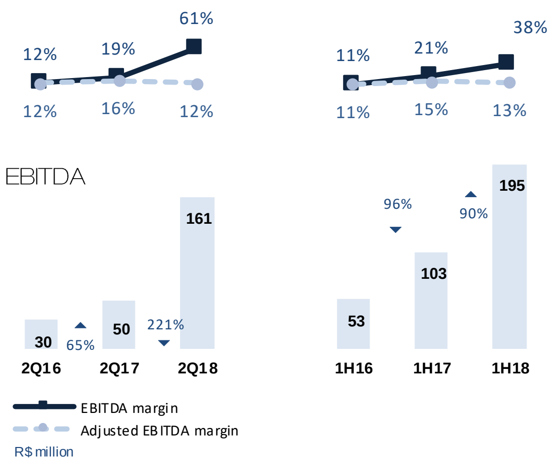
Other operating income amounted to R$123 million and was positively impacted by the favorable outcome of part of the lawsuit named "Polo Ativo". The lawsuit was filed in 1984 and the federal government has issued a statement acknowledging part of the amount as uncontested in the 2Q18.

In thousands of Brazilian reais - R$, unless otherwise stated

EBITDA

	2Q16	2Q17	2Q18	%NR	▲%	1H16	1H17	1H18	%RL	▲%
Profit	4,040	21,876	96,415	36%	341%	(2,180)	41,748	103,411	20%	148%
(+) Finance income (costs)	18,873	10,095	5,397	2.0%	-47%	38,493	25,540	20,600	4.0%	-19%
(+) Depreciation and amortizatio	9,741	9,833	11,023	4.1%	12%	19,133	19,676	21,868	4.3%	11%
(+) Income taxes	(2,207)	8,290	48,191	18%	481%	(2,946)	15,850	49,601	10%	213%
EBITDA	**30,447**	**50,094**	**161,026**	**61%**	**221%**	**52,500**	**102,814**	**195,480**	**38%**	**90%**
(-) Reversal of Provision for Tax Risks	-	(9,794)	(129,576)			-	(30,042)	(129,576)		
Adjusted EBITDA	**30,447**	**40,300**	**31,450**	**12%**	**-22%**	**52,500**	**72,772**	**65,904**	**13%**	**-9%**

The Company posts EBITDA of R$195 million and EBITDA margin of 38% at the end of the 1H18. The growth by 90% when compared to the 1H17 is due to the favorable court decisions recognized in the 2Q18. Should these gains on favorable court decisions be disregarded, EBITDA would amount to R$66 million and EBITDA margin would be 13%.



Profit

In 2Q18, profit amounted to R$96 million. The Company recognizes profit of R$103 million at the end of the semester, an amount significantly higher than the same period in the prior year.

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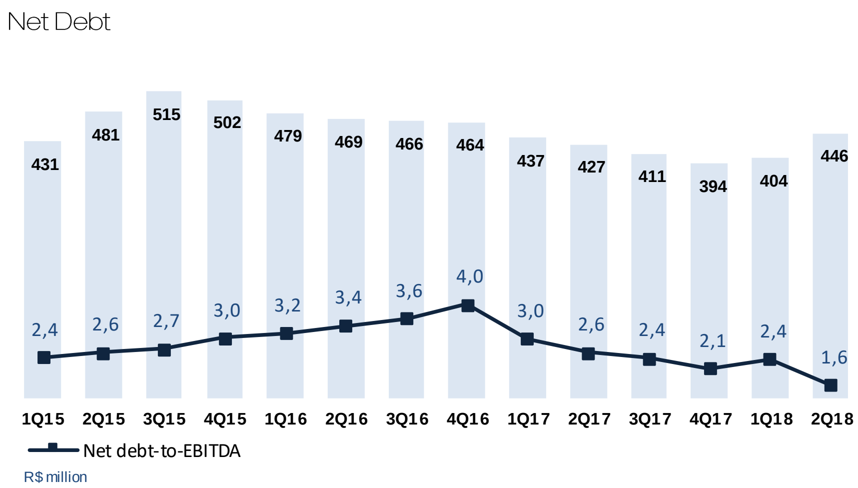
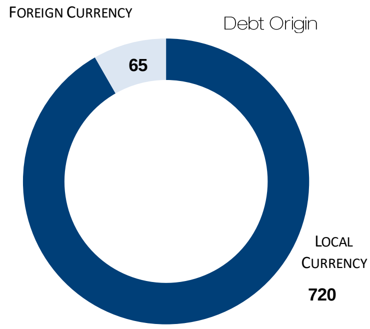
DEBT/CAPITAL STRUCTURE



The Company's net debt reached R$446 million at the end of 2Q18. Net debt-to-EBITDA ratio for the past 12 months is 1.6x and net debt-to-equity ratio is 1.2x. When compared to 2Q17, net debt-to-EBITDA ratio dropped by 1.0x.

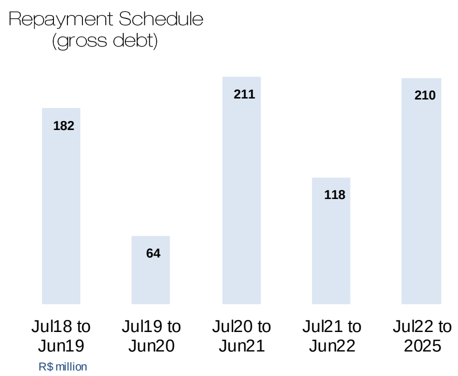
In 2Q18, the lowest net debt-to-EBITDA ratio for the past five years was reached, and the ratio reached the same levels as 2013, when the ratio was 1.4x in the 1Q13.

	Jun-16	Jun-17	Jun-18	▲R$
Bank Indebtedness	658,596	548,246	714,738	166,492
Tax Indebtedness	81,007	76,637	69,001	(7,636)
(=) Gross debt	**739,603**	**624,883**	**783,739**	**158,856**
(+) Cash and cash equivalents	(97,251)	(105,125)	(241,399)	(136,274)
(+) Due from related parties	(87,936)	(92,449)	(96,286)	(3,837)
(=) Net debt	**554,416**	**427,309**	**446,054**	**18,745**
EBITDA (past 12 months)	138,175	165,626	281,683	116,057
Net debt-to-EBITDA ratio	*4.01*	*2.58*	*1.58*	
Net debt-to-equity ratio	*2.33*	*1.50*	*1.23*	

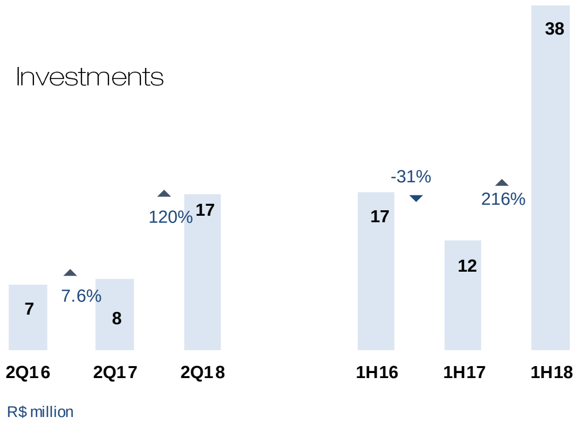


The balance of gross debt is divided into 23% maturing in the short term and 77% maturing in the long term. In the 2Q17, the balance of gross debt was divided into 35% maturing in the short term and 65% maturing in the long term.

The Company focused on the debt profile extension in the 2Q18, which posted the highest funding volume ever reached. In June 2018, the Company conducted the 3rd issue of debentures in the total amount of R$300 million.



INVESTMENTS

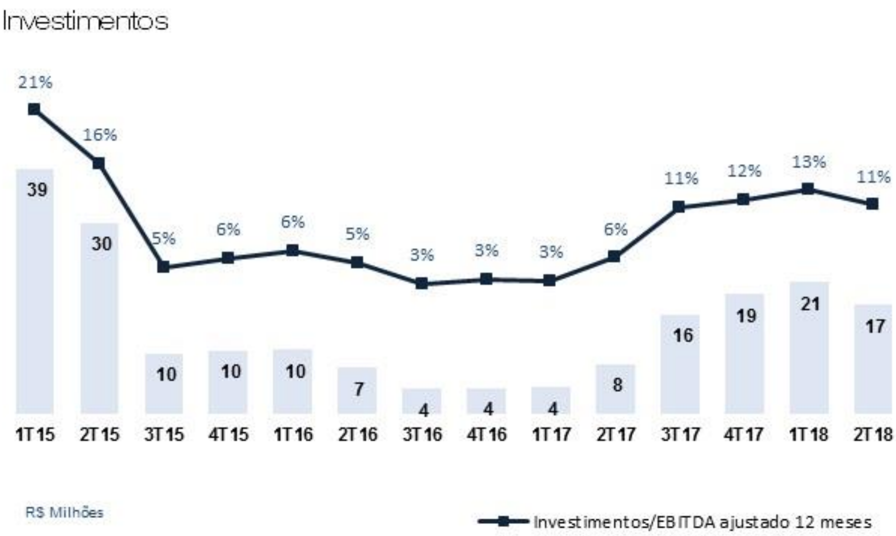


Investments are being gradually resumed and are higher than in the past two years. In 1H18, investments amounted to R$38 million, out of which 82% were allocated to Portobello and 18% were allocated to Pointer.

At Portobello, the amount of R$24 million is intended for preparing and upgrading the plant located in Tijucas to manufacture products with higher value added and larger formats, while R$3 million are targeted at IT infrastructure and R$2 million to Officina, own stores and business projects.

At Pointer, investments were mostly allocated to the plant transformation seeking the portfolio profitability and qualification.

The investment-to-adjusted EBITDA ratio continue at 11% in the 2Q18.

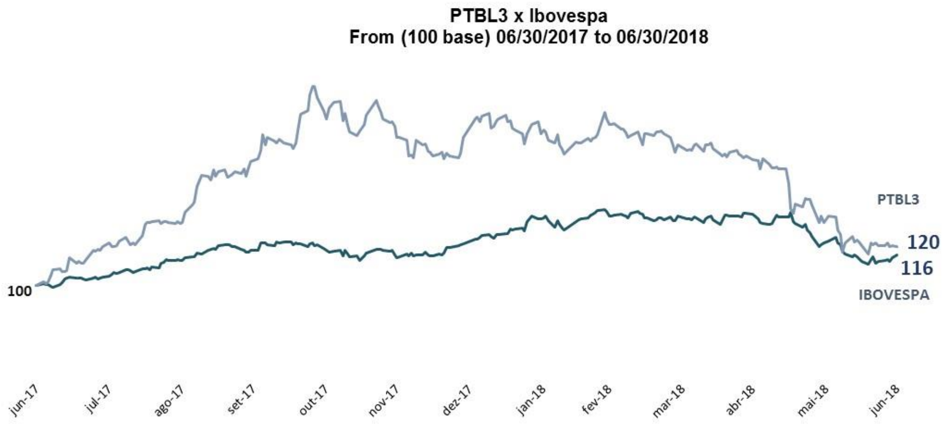


SHAREHOLDERS' COMPENSATION AND SHAREHOLDERS' MEETING RESOLUTIONS

Total shareholders' compensation for 2017 amounted to R$30,464 thousand, which represented a yield of 3.50% (dividend per share divided by the closing share quotation). On May 25, 2018, 2017 residual dividends were paid.

In relation to the 1H18 profit, the Board of Directors approved on August 08, 2018 the distribution of interim dividends in the amount of R$8,939 thousand, in the approximate amount of R$0.0564 per share. Payment is scheduled to be made on August 29, 2018 as dividends and interest on capital.

PERFORMANCE OF PTBL3 SHARES



The common shares issued by PBG S.A., traded on B3 (Brasil, Bolsa, Balcão) under ticker symbol PTBL3, ended the last trading session held in March quoted at R$3.73, i.e., appreciation of 20% in the past 12 months, while Ibovespa rose by 16% in the same period.

In the past 12 months, the average financial trading volume was R$52 million, up by 102% against the R$26 million recorded in the prior year. At the end of 2Q18, PBG S.A.'s market value was equivalent to R$591 million (R$493 million in June 2017).

PROSPECTS

- The domestic market must continue unstable in 2018, contingent on the outlook of the political and economic scenario. Accordingly, internally, the focus is maintained on the qualification of the sales mix, seeking to achieve margin gain through large formats, launchings and customization products;
- Exports are important in this scenario. The foreign market efforts remain concentrated on increasing exports and internationalizing the Company so as to create a more robust structure for ensuring lower dependence on the domestic market;
- Retail trade and exports remain as the industry's growth pillars. Especially in sales through the Portobello Shop channel and expansion of Own Stores;
- The construction market continues to show performance below the expected. The recovery expected for this year must be more clearly reflected in the finishing material industry in early 2019. Accordingly, the product mix, integrated construction solutions, customization services and market niche services will be key to the maintenance of profitability in view of the volume drop trend;
- The plant located in Alagoas and Pointer brand maintain the plan on adjusting to the current market scenario and seeking economic balance. The positive results reached in 1H18 represent the plan effectiveness;
- The plant in Tijucas poses challenges for the maintenance of its production costs in 2018, due to the adjustment in iron ore freight and gas prices in July;

- The Company is gradually recovering the pace of investments for 2018. At the plants located in Tijucas and Alagoas, the focus is driven to production qualification. At own stores, investments are allocated to expanding the current units and creating new units. Investments will be also concentrated on the distribution structure, both in the domestic (for both brands) and foreign markets.
- Upon reviewing the organizational structure, the Company will maintain its efforts to enhance its retail trade-oriented business model, seeking improvements in its processes, technologies, the development of teams and brand positioning.
- In addition, efforts remain concentrated on expanding and enhancing the Portobello Shop business's competitive edges, with new own stores, distribution and the Officina.
- Management will continue to focus on extending and improving the debt profile, as well as on monitoring and maintaining the debt-to-EBITDA ratio. The actions aim to ensure effective cash management, working capital decrease, liquidity maintenance and reduction of finance costs.
- The Company remains confident in its competitive edges and reaffirms its efforts to improve earnings.

INDEPENDENT AUDIT

In engaging independent auditors to perform non-audit services, PBG S.A. adopts a policy based on principles that preserve the professional independence. These principles draw on the assumption that the auditor should not audit their own work, should not perform management functions in the client and should not act as client's advocate. In the second quarter of 2018, the Company did not engage independent auditors to perform non-audit services.

MANAGEMENT

Board of Directors

Name
Cláudio Ávila da Silva
Cesar Gomes Júnior
Nilton Torres de Bastos Filho
Glauco José Côrte
Geraldo Luciano Mattos Junior
Walter Roberto de Oliveira Longo
Marcos Gouvêa de Souza

Executive Board

Name	Title
Cesar Gomes Júnior	Chief Executive Officer
Cláudio Ávila da Silva	Deputy Chief Institutional Relations Officer
John Shojiro Suzuki	Deputy Chief Operations Officer
Mauro do Valle Pereira	Deputy Chief Business Officer

TELECONFERENCE AND WEBCAST
(Portuguese Only)

On Tuesday, August 14, 2018, at 10 a.m., a teleconference will be held in Portuguese language to report the earnings for the second quarter of 2018.

Data for connection: Phone: +55 11 3137-8043 Password: PORTOBELLO

For those who cannot attend the live teleconferences, the full audio will be made available and can be directly accessed at the Company's website (www.ri.portobello.com.br/).

In thousands of Brazilian reais - R$, unless otherwise stated

Balance Sheet

Assets	06/30/2018	12/31/2017	Liabilities	06/30/2018	12/31/2017
Current assets	**710,067**	**522,623**	**Current liabilities**	**446,660**	**414,310**
Cash and cash equivalents	234,307	94,379	Borrowings and debentures	170,825	146,402
Trade receivables	246,649	218,412	Trade payables and credit assignment	153,725	149,696
Inventories	200,419	179,323	Taxes and social contributions	24,842	31,157
Recoverable taxes	10,559	15,922	Payroll and related taxes	42,985	31,330
Prepaid expenses	4,223	1,720	Advances from customers	13,539	12,615
Other current assets	13,910	12,867	Dividends payable	462	6,035
			Other current liabilities	40,282	37,075
Noncurrent assets	**975,150**	**729,385**	**Noncurrent liabilities**	**876,597**	**552,638**
Long-term assets	**500,406**	**268,926**	Borrowings and debentures	543,913	367,159
Escrow deposits	99,257	93,501	Trade payables	84,076	78,496
Recoverable taxes	5,304	6,407	Deferred income tax and social contribution	4,085	14,186
Legal assets	267,119	45,969	Taxes payable in installments	58,266	62,648
Due from related parties	96,286	94,651	Related parties	62,008	-
Due from Eletrobrás	12,821	12,821	Provisions	121,016	28,214
Other noncurrent assets	19,619	15,577	Other	3,233	1,935
			Equity	**361,960**	**285,060**
Investments	**298**	**298**	Capital	140,000	130,000
Property, plant and equipment	**454,453**	**440,595**	Earnings reserves	133,348	143,988
Intangible assets	**19,993**	**19,566**	Other comprehensive income	(15,405)	(4,172)
			Additional proposed dividends	-	15,232
			Retained earnings	103,991	-
			Noncontrolling interests	26	12
Total assets	**1,685,217**	**1,252,008**	**Total liabilities**	**1,685,217**	**1,252,008**

Visit the Investor Relations website: *www.portobello.com.br/ri*