

Sonda

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Investor Day feedback: Bullish expectations; Execution is key

Yesterday, we attended Sonda's 1st ever Investor Day in Santiago, Chile. A full-day event with several presentations made by the company's top executives (not only regional leaders, but also VPs specialized in important industry topics, such as: Innovation, Digital Transformation, Automation, Smart Cities, Cloud, Cybersecurity, Analytics, A.I. & others). They walked us through Sonda's rich and long 44-year history and, more importantly, discussed what they expect for Sonda going forward.

Ultimately, the message that was conveyed was quite a positive one. Sonda wants to continue making use of its privileged position as one of the leading IT services companies in Latin America to help clients improve and transform their businesses, with the use of new technologies which have been emerging (Analytics, A.I., Cloud computing, etc) and are increasingly being demanded by companies.

For this, the company selected 4 industries which it will be prioritizing on a regional level and which it wants to become the top-of-mind player, going forward: Transportation, Retail, Financial Services & Government. Naturally, this doesn't mean it will be giving up on other industries that might be interesting on a country level, like the Healthcare & Education sectors in Colombia, the Telecom sector in Mexico and the Utilities sector in Brazil.

The company also presented its new 3-year quite optimistic plan (2019-2021) in the meeting. On a consolidated basis, the company expects to grow its topline between 11/12%, on average, during the 2019-2021 period. With an EBITDA CAGR during the period of an impressive 24/26%, with margins reaching 16% in 2021, which means a 500bps margin expansion over the next 3 years.

In terms of Capex, differently from what the company has always done in the past, it is now only guiding what it will be investing for organic growth during the period. A total of \$360mn, of which \$195mn will be invested in 2019, \$85mn in 2020 and \$80mn in 2021, representing a 44% increase when compared to the \$250mn in organic Capex from its previous 3-year plan (2016-2018). In terms of where this Capex will be allocated, 26% will be directed for integration & outsourcing projects, 31% for datacenter expansion (company is building 2 Tier IV DCs) and 43% for the development of solutions and investments in assets for the provision of services.

While the company isn't projecting any Capex for M&A's, they will most certainly be pursuing them going forward – it's an intrinsic part of their model. The company has actually elected Colombia, Mexico and Peru as the priority countries when it comes to M&A. M&A's could still eventually happen in other countries, but they would be much more surgical, to complement the company's portfolio of solutions. In Colombia, Mexico and Peru, the focus is on scaling Sonda's operations in these countries (increasing market share), acquiring clients (relationships are key for the sale of new services in the future), increasing portfolio of solutions and growing into new industries.

Below you can find a breakdown of what the company is guiding per region:

Chile – Revenue growth: 7-8% CAGR / EBITDA growth: 8% / EBITDA margin in 2021: 15%

Brazil – Revenue growth: 12% CAGR / EBITDA growth: 61% / EBITDA margin in 2021: 18%

Mexico – Revenue growth: 17% CAGR / EBITDA growth: 46% / EBITDA margin in 2021: 15%

Colombia – Revenue growth: 12% CAGR / EBITDA growth: 31% / EBITDA margin in 2021: 17%

OPLA – Revenue growth: 15% CAGR / EBITDA growth: 18%

All presentations were already made available in Sonda's website:

<https://www.sonda.com/es/inversionistas/sonda-day/>

Overall, in spite of the positive message and bullish guidance (way above consensus) that was conveyed today by top management, with Sonda trading at 10x 2019 EV/EBITDA (in line with global peers) and after several challenging and disappointing years, we would still remain on the sidelines until we have more visibility on future results.

We hope this helps.

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