

Q3 2015 Earnings Call

Company Participants

- Fabio Abrate, Chief Financial Officer and Investor Relations Officer

Other Participants

- Andrea Teixeira, Analyst
- Bernardo Cavalcanti, Analyst
- Franco Abelardo, Analyst
- Gustavo Oliveira, Analyst
- Joao Mamede, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good afternoon. Thank you for waiting. Welcome to the B2W Companhia Digital Conference Call to discuss the earnings for the third quarter of 2015. Today we have with us, Mr. Fabio Abrate, CFO and IRO for B2W; and Mr. Murilo Correa, CFO and IRO for Lojas Americana.

To view the presentation during the conference call, please visit the website www.b2wdigital.com for the presentation. We'd like to inform you that this call is being recorded and all listeners are connected as listen-only during the Company's presentation. After the presentation, we will begin the Q&A session for which instructions will be given at that time. (Operator Instructions) This event will be available for viewing at the end of the call for one week.

Before we proceed, we would like to clarify that any statements made during the call related to B2W's business outlook, projections and operating, and financial goals are based on the management's beliefs and assumptions, as well as any information currently available.

Future considerations are not a guarantee of performance. They involve risk, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not take place. Investors must understand that the overall economic conditions, industry conditions and other operating factors may affect the future performance of B2W Digital and can lead to results that materially differ to those expressed in such future consideration.

Now I'd like to pass over to the speaker who will begin his presentation. Mr. Fabio Abrate, you may proceed.

Fabio Abrate {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen, I would like to thank everyone for listening to our conference call, where we will talk about the earnings for the third quarter of 2015. Although, there was a challenging macroeconomic scenario, we've achieved important results.

Starting off with slide number 2, we will talk about the evolution of the main indicators in the third quarter. The GMV was BRL2.7 billion, an increase of 25.8% year-over-year, resulting in gains of 2.4 percentage points in market share, totaling 26.5%. Marketplace is still quickly developing, growing 750% in the third quarter and achieving a share of 10.1% of the total GMV. The mobile traffic -- I'm sorry, we do not have the audio, I'm sorry, the call has been disconnected. Ladies and gentlemen, please wait. We may proceed. I apologize for being disconnected.

Moving back to slide 2, we're going to talk about the main indicators of the third quarter. The GMV was BRL2.7 billion, an increase of 25.8%, resulting in gains of 2.4 percentage points in market share, totaling 26.5%. Marketplace is still quickly developing, growing 750% in the third quarter, with a share of 10.1% of the total GMV. The mobile traffic reached 34.8% of the total visits, an increase of 15.2 percentage points year-over-year. In the past 12 months, we achieved 1.9 million new customers.

Now on slide -- as on slide 3, we will talk about the strategic initiatives to leverage our digital platform. On slide 3, we will talk about the advances in the commercial and marketing front. As a main highlight, for the 13th consecutive quarter, B2W Digital grew above the market, gaining market share and consolidated its leadership position in e-commerce in Latin America.

Since the beginning of the announced investment plan, B2W market share expanded 6.6 percentage points, moving from 19.9% in the first half of 2012 to 26.5% in the third quarter of 2015.

In 3Q 2015, the product assortment increased 63.4% year-over-year, in line with the success of the 2014 edition of Black Friday when B2W achieved a 40% market share and saw the equivalent to 30 days of sales during the event, the entire platform is ready to establish a new sales record during Black Friday 2015.

On slide 4, we would like to highlight the quick development of Marketplace. Marketplace from B2W has attracted over 2,000 sellers who will sell on the Company's website by the end of the year. The GMV is still quickly growing, practically doubling its size for every quarter of the year, creating optimism to maintain that strong growth rhythm throughout the fourth quarter of 2015 and upcoming years.

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The sellers are becoming more and more excited to be a part of Marketplace from B2W, which offers access to the largest checks in the market and the brands that have the best reputation and unique digital services, including technology solutions and logistics solutions offered by B2W services, resulting from the strategic acquisitions in the past year. As a result of the advances in the platform, the satisfaction level that the customers have with the Marketplace sellers increased 60% throughout the year, according to a survey with our customers.

In slide 5, we show the evolution of the distribution platform for the Company, aiming at being closer to the customers. B2W Digital opened two new distribution centers in 2015, reaching a total of 11 distribution centers in operation throughout the country, which totaled a storage area above 500,000 square meters, a 35% growth compared to the end of 2014. B2W Digital still also operates with 139 hubs that are strategically positioned to support the Company's distribution system. This number represents a 48% growth year-over-year and is almost 10 times larger than the number of hubs in operation that we had in 2012.

In 2013 and 2014, B2W bought two main transport companies specialized in e-commerce in Brazil, Click-Rodo and Direct. As a result of the integration of both transporting companies, we created the distribution unit B2W. In two years of operation, the share of B2W distribution unit and deliveries for the Company has gone from less than 5% to 60% of the total deliveries.

The verticalization of this distribution enabled to create a Shipping Menu in March 2015, a service that offers the customer up to six delivery options throughout the country; Same Day, Next Day, Fast, Standard, Click & Collect and Scheduled. The Click & Collect is already available in 170 stores and in line with the plan that we communicated will be available in 200 stores until the end of the year.

In addition to offering a differentiated service to the customers, the Shipping Menu is also an advantage for the Company for being a profitable service with revenues from the shipping more than contributing to the cost of shipping.

On slide 6, we show the leadership position of B2W Digital and the migration from e-commerce to mobile devices. The traffic per mobile device reached 34.8% of the total visits in 3Q15, a 15.2 percentage point growth compared year-over-year.

As part of the strategies on mobile devices, the Company makes available apps for the four brands, Americanas.com, Submarino, Shoptime and SouBarato for iOS and Android. Throughout the third quarter of 2015, the number of downloads for the apps for B2W grew more than 100% year-over-year. Additionally, B2W continues to invest to improve more and more the online shopping experience through several improvements on our websites like a new order control panel, a mobile version for the sites enterprise basis responding and also new checkout systems.

Going to slide 7, we highlight our digital service platform. Since 2013, B2W has bought 11 companies, being nine technology companies best in class and two main transport

companies specialized in e-commerce in Brazil. As a result of the integration of these companies acquired, we created B2W Services. B2W Services offers full solutions on verticals for technology and logistics to support the sellers' operation in the marketplace and online operations from large brands, including the Seller webstore and ERP services and BFF [ph], B2W Fulfillment, storage, distribution and customer service.

In June 2015, B2W bought Sieve Group, which has more than 2,000 customers and more than 800 monitored websites, expanding the services offered by B2W Services to the verticals for pricing intelligence online and offline through Sieve and Infoprice, respectively, online security services, provided safe site as SkyHub for marketplace interactions and digital marketing solutions.

B2W Fulfillment, launched in March 2015, represents an important connection between B2W customers and the sellers in the marketplace. The full solutions of B2B storage distribution and customer service were initially offered to sellers in a large scale like Ambev, BRF and Motorola.

As the other sellers started to see a strong growth with the sales on the B2W website, they have been choosing more and more for also using BFF services to support the gain and scales for their businesses and also have a level of service with the excellence of B2W. B2W also offers online advertising services enabling that large brands use the traffic and reputation of B2W websites to access millions of customers.

Now going to slide 8, we highlight our financial services platform. Created in 2006, Submarino Finance has 1.5 million card issue, which represents 32% of share on the Submarino website sales. Replicating the success model of Submarino Finance in 2014, we created Digital Finance, which offered credit cards of the brands Americanas.com and Shoptime. Based on the strong performance of this operation, the Company now is launching a credit card with the brand SouBarato.

In less than one year in operation, Digital Finance has already issued more than 300,000 credit cards. The advantages for the customers that have the credit card from B2W are, exclusive discounts, reward programs, special credit limit to shop on the website. And on the other hand, the advantages for B2W are, lower cost on the credit card tariffs, larger shopping frequency and larger average ticket. Other financial products like insurance and extended warranty continue to gain force on the B2W platform.

On slide 9, we highlight our greatest asset, the largest and the best digital team in Latin America. Currently the Company has more than 1,000 Internet and technology engineers working exclusively on the B2W digital project. On the companies that we acquired, the index of retaining the main talent was 100%, which shows B2W's reputation as the main employer for technology in Latin America. Currently B2W has three technology and innovation centers, being two located in Rio de Janeiro and one in Sao Paulo as a way to create a cooperative environment and encouraged the innovation culture.

Now slide 10, we highlight the great development of the number of customer service through the investment plan of three years. During this time the Company gained -- won

most of the customer service awards, for example, e-Bit and Reclame Aqui. The main brands for B2W Digital are considered best in class in customer service, having the best performance indicators, including the RA 1000 Seal, the highest testament level from Reclame Aqui since 2013.

As a result of this evolution, the Company more than doubled the size of sales and the investments that were carried out improved significantly its efficacy and cost to solve complaints and processes. This cost reduced from 5.8% for gross sales in 2012 to 0.8% in 2015, generating an estimated savings for the past three years of BRL1.6 billion.

Looking to the next five years, 2016 through 2020, this saving will be more than BRL5.6 billion. If we take out CapEx of BRL1.9 billion, the net savings estimated will be BRL2.5 billion throughout the period. Additionally, the investment cycle has allowed the Company to present a large evolution also in the financial metrics, increasing the operational cash flow and reducing the need for future investment. This way CapEx as a percentage of the net revenue reduced from 12% in 2013 to 8% in the first nine years [ph] of 2015 while the coverage index for CapEx by EBITDA in the same period went from 60% to almost 90%.

As we can see throughout the presentation, the investments carried out in the past three years generated important returns on gained earnings in market share, development of the marketplace, leadership in migrating to mobile devices and more importantly acquiring new customers. B2W Digital is committed to continue to invest and create the best digital experience in Latin America, connecting people, products, services and businesses.

Lastly, we would like to thank the dedication of all our associates that are part of the best and most successful digital team in Latin America, which once again made a difference. We would also like to thank our suppliers for the partnership, our shareholders for their trust, and especially our customers for their preference.

Those were the main comments related to our performance in 3Q15. So now I'd like to open for the Q&A session to clarify any eventual doubts you may have. So that everyone can have an opportunity to participate, we would like you to be brief in your comments.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question is from Andrea Teixeira from JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello. Good afternoon, everyone. Thank you Fabio for the opportunity to ask this question. I'd like to talk about -- thank you for the comments and about the platform and coming close to Black Friday. I'd like to understand that better the margin, for instance. Your margin -- relative margin was in fact actually good compared to the competition. But from

now on based on the scenario that Black Friday has a lot of electronic activation, how do you see that makeup? I believe that marketplace would be harder to grow as much as you grew because of Black Friday. I believe it's more complicated.

And could you talk about fulfillment as well? Do you have any initiatives in the short-term in addition to the customers that you're already working with that you had already announced, because fulfillment will increase during the holiday season?

A - Fabio Abrate {BIO 17940993 <GO>}

Hi, Andrea. Thank you for your participation and your questions. Well, the margin growth equation, as you mentioned, in the quarter, we believe that it performed really well, growing 26% in GMV with a margin expansion of 0.4 percentage points. That's a very challenging scenario, based on the economic scenario and the competition.

And that scenario should evolve, especially with the contribution of the entire services front. We built a platform that's extremely powerful throughout the last three years. It's going to sustain the Company's growth in the upcoming years. So that platform will gain scale, decrease expenses, and bring in more revenue and sales and the contribution in margin in diluting the expense is obvious.

The last quarter of the year for us is the main quarter of the year, which is where our business actually happens. It's hugely important, especially because of Black Friday, which is a huge event. And every year, we are more and more surprised with it.

We still don't know the size of the event because every year we've been surprised in a positive manner. So we're ready to operate Black Friday based on all the business prospectives, sales, logistics and service. And we'll look for the best balance between growth and margin and that's pretty much what we did throughout the nine first months of the year where we were able to grow 26.3% in GMV in a scenario where the market increased 3.8%.

So we were able to grow double the market and balanced the growth of the margin and EBITDA. Marketplace is becoming more and more appealing. We are doubling every quarter in absolute value. And our expectation is that we will continue to evolve in the end of the year. With the 3Ps and all of the services platform that will contribute, so that we can have very sustainable growth.

In terms of Fulfillment, which is one of the fronts of B2W, we really wanted to be awesome. We're reaching the end of 2015 with 11 distribution centers spread out through all of Brazil, 139 hubs. So the Company is very well positioned in terms of that distribution and logistics front and ready to service all the e-sellers in marketplace because we know very well what's necessary to operate e-commerce in Brazil and the needs that B2W has and faces is the same that the sellers in Marketplace as they gain scale will face as well. So it's a natural path, offering everything that we structured for B2W and offer that to the Marketplace sellers as well. Thank you.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you.

Operator

Our next question is from Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Good afternoon. It's Franco Abelardo. As a follow-up to Andrea's question about the margin, we've noticed that the gross margin increased in the third quarter in the consolidated, but we had a drop of 50 basis points in the controller, which is lower than what we saw in the first quarter.

But it was probably helped by a more favorable mix of product mix. Do you see any difference in prices? Is this current level enough to maintain the growth level? Is the market being rational in terms of prices and like free freight, for instance free shipping or paying in installments?

The other one is about indebtedness. So that increased BRL1.6 billion in the past 12 months. It's already on a level that's closer to what before the capital increase. So for the future with the 4Q have better cash generation, CapEx would probably continue to drop and the Ingresso.com resources will probably come in as well. So is the indebtedness in the third quarter the peak for B2W, would that improve from now on then?

A - Fabio Abrate {BIO 17940993 <GO>}

Hi, Franco. Thank you for participating. About your first question, in fact, in the parent company, we did have more pressure in gross margin resulting from the competitive and economic scenario overall, but was very much offset in the consolidated view where we were able to expand the other business fronts in the Company. So we were able to leave a margin of 23.5% last year to a margin of 23.9%, so that 0.4 percentage points.

Our main model is not investing in price. We're investing to service our customers better. So based on the current scenario, we do face more competition and a customer with less purchasing power. So in fact, you do have a pressure on your gross margin. But in the consolidated view, you cannot only offset that loss, but you can also expand the gross margins overall.

In terms of indebtedness, you are correct. The position on September 30 is the most challenging snapshot about the outlook for the balance sheet, but our business is based on seasonality. So its cash generation is very strong in the last quarter and that will be no different this year. We do believe that there is going to be an improvement in the cash position of September 30 when we look at end of December and added to the cash generation, will be added to the sale of our subsidiary Ingresso.com for BRL280 million.

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As you mentioned, CapEx has been evolving. It used to represent, two years ago, 2% of our net income and now it represents 8%. Our EBITDA would cover 60% of our CapEx and now it already covers 89%. These investments were extremely important and relevant. We showed the numbers, it's very important in terms of the index of problem solution and the savings that the Company had during that time, because we invested on the right pillars of this business which is technology and logistics.

So most of this investment were already carried out. And looking forward, our goal is, of course, continue to invest in our platform, but you also have an expectation to reduce the amount of investments when compared to what we see or saw in the past years.

So the financial model overall tends to evolve [ph] in the fourth quarter of this year and going towards 2016 with all the initiatives, gaining some traction and the idea is to monetize the platform more and more. We have a lot of things that are capable of making this business continue to grow in a much stronger rhythm then the market and gaining market share.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay, thank you. And a follow-up on the CapEx. You mentioned that it's 8% of the revenue. Can you imagine a reduction in the same proportions for next year, maybe going to 6% of the revenue or do you think about the absolute amount that is necessary and that will depend on the increase in sales?

A - Fabio Abrate {BIO 17940993 <GO>}

For 2016, we're still doing the budget, so we're still discussing all these figures regarding the investments, but what I can say is that, in fact, CapEX will reduce, although the Company will start continue to invest, not just in terms of net revenue, but also in absolute numbers.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay, thank you very much.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you.

Operator

Next question, Joao Mamede, Santander.

Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon, Fabio. I want to do a follow-up on the questions or comments about your (inaudible). I know you have a great savings coming from that. How much of your sales already have the shipping being charged, how much you think you can still save on that, how can you think about that from now on?

And the second question is about marketplace. It's incredible how much -- how fast it evolved. One year ago it was zero and now it's already 10% of GMV. I want to understand about 2016 and also the mid and long term, how do you think about the evolution of the contribution of Marketplace to the total GMV? Do you think that it will be 30%, 40%, 50% of GMV can come from Marketplace? And for 2016, we didn't have any idea last year, now it's 10%, can we think about 15% or 20%, is that reasonable for 2016?

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A - Fabio Abrate {BIO 17940993 <GO>}

Sure. Thank you for your question. We're very happy with the numbers from shipping. We're the only company in e-commerce that provides this type of service for the customers. We have six options that are totally unique for our shipping service, either for small amount of packages or large amount packages, and it's a very positive number. We meet the needs of our customer, and at the end of the day, the revenue that we operate with this Shipping Menu more than covers the expenses that we have to deliver. So it's a very profitable business. That's just beginning.

I can't give you more information about how relevant it is in our business today, but the contribution can already be seen especially in our margin when we look at the margin, consolidated margins, and expand it we have already some effects.

Marketplace is one of them, Shipping Menu was the other, the digital services that we offer also. So on that part, we already start to see that the customers have been using the Shipping Menu and the Company has been gaining important revenues and significant figures.

In regards to the Marketplace, in fact the evolution has been surprising, but actually we did plan for that. So we structured the Company in a way that it can operate not just 1P, but also 3P.

The gaps to operate e-commerce in Brazil are very well known by all of us. So for the sellers in the marketplace, it wouldn't be different. So, our plan continues in line to what we have forecast and what we foresaw at the beginning of our plan. In the third quarter, we had a share of the total GMV of 10% and the idea for 2016 and the following years is to speed up this business. So, for 2016, we have an expectation that is very big towards Marketplace in our business and our first figures and expectation point to at least double the participation in the Marketplace in the total GMV.

Q - Joao Mamede {BIO 15265292 <GO>}

Okay, Fabio, can I just ask one more question, please? Have you noticed any difference in the way that the customers have been financing their purchases, maybe reducing their number of installments, seeking more discount, what have you been seeing in this sense, were there any changes?

A - Fabio Abrate {BIO 17940993 <GO>}

Sure. Actually our customers today are experiencing something different than what we experienced last year. The income is lower. There are several effects from the

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macroeconomic scenario that aren't typical.

So in the recent past, we don't remember if that happened before or not. So it's a very challenging scenario. Anyway, trying to minimize this type of impact, today we have our own credit cards. And in some ways that enable the customers to have a larger number of installments in their purchases. And through our credit cards, our customers also have access to exclusive discounts and also the rewards programs and a credit limit that is special when they buy at our website.

So Submarino, for example, through Submarino Finance, which is in operation, more mature and our own credit card already represent 33% of our total sales. And specific events for our credit cards that number more than doubles, so this really helps.

And now we're ready to offer in the other three brands at Americanas.com, Submarino and more recently in SouBarato, the advantages of that card. So we've been facing that entire scenario with the options that we have to better service our customers. And we've been able to do that service all our customers and deliver a sales growth which is much higher than the market.

Q - Joao Mamede {BIO 15265292 <GO>}

Great, thank you again.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you.

Operator

Our next question is from Irma Sgarz from Goldman Sachs.

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

Good afternoon. This is Bernardo Cavalcanti on behalf of Irma. Thank you for the opportunity to have, Fabio. The first one is a bit technical. I apologize if I missed anything. But I have to say that I was a bit confused that the Company started to report the results in a new way after the first quarter to the second. Because of the transportation companies now you went back to the initial one and mixed with some of the effects of the deferral of the Submarino, Viagens, so there are some things that are in the older accounting.

So I'd like to understand the nature of the adjustments that were to reach the management P&L, especially EBITDA and profit that are not affected by the transportation company just B2W Viagens. So there is an EBITDA of BRL86 million that was practically half of what was shown in the release.

And for us, actually losses maintained and reported through the CVM is 40% higher than the loss presented in the release. I'd like to understand that and how that's allocated in

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the accounting lines according to the CVM, the securities commission, so to take out this B2W Viagens effect.

A - Fabio Abrate {BIO 17940993 <GO>}

Hi, Bernardo. Thank you for participating. Actually it's not new accounting in the Company. What exists is the best way to look at the operating results and that's what we did in our press release.

So basically, there are two effects. One effect that was already known, the transportation company effect, meaning that Click-Rodo and Direct, they provide distribution services, they distribute our merchandise for the company, generating gross profit and SG&A, especially in expenses and distribution line.

And the consolidated gross profit is reduced based on the positive effect that's observed in the sales expenses, but nowhere affect the adjusted EBITDA or the adjusted margin -- EBITDA margin.

When Click-Rodo provides more services for the Company, it becomes more relevant. So to better understand the evolution of our gross margin and our expenses evolution, we adjust that effect between the lines. So you don't have a wrongful vision of the Company's figures.

The second effect, which was very specific for this quarter was the effects of the sale of B2W Viagens or B2W Travel that created a non-recurring effect. To better compare the operating results, we've excluded all the effects in two years related to B2W Viagens.

So as non-recurring effect affect the bottom line in BRL36 million in the third quarter, was BRL52 million in the first nine months in the September year-to-date. And that effect is resulting from two other effects. The first one, which is directly related to operations of B2W Viagens, which was a depository operation. And the second effect is the difference between the sale amount and the net worth amount. So those were the adjustments that were made between one view and the other.

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

So you can say that the entire difference in the EBITDA of almost BRL70 million in profits, that was BRL30 million something comes from B2W Viagens partly because of the sales amount and part from the loss. But more importantly, up to when will you see operating losses? The booked versus sale was now it shouldn't be again, will you still have that effect in the fourth quarter, will you have this type of effect with Ingresso.com as well?

A - Fabio Abrate {BIO 17940993 <GO>}

The non-recurring effect is practically over in the third quarter. The travel figures are in the other quarters of the Company as well. So 100% eliminated effect is when we compare 2017 with 2016. So we will continue to provide you with the information about that

elimination, so that you have a correct comparison about what's left over B2W -- without B2W Viagens.

The Ingresso will have the same effect, but it's the opposite, because we sold the company for BRL280 million. So we're going to have a positive effect in the fourth quarter of the year and we'll give you the same visibility that we're giving you as we've done with B2W Viagens.

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

I have two more quick questions. The first one, if you open about the variation of gross margin in direct sales, those 40 basis and the consolidated based on what you already mentioned, but how did direct sales contribute so that variation?

And the second question is, could you give more details about working capital? We see inventory growing probably influenced by the distribution centers. But at the same time, accounts payable to suppliers are dropping. That's a curious effect. I'd like to understand what's happening with suppliers and looking forward what should we expect? Thank you.

A - Fabio Abrate {BIO 17940993 <GO>}

Bernardo, thank you again. The gross margin of the direct sale of merchandise, you can see from the parent company's income statement, so the margin we track did have percentage points. But in the consolidated view, we've offset that retraction and were able to expand at the end of the day 0.4 percentage points.

In relation to your question about working capital, once again, our business is seasonal, sales and cash generation is focused on the fourth quarter with all the major events, Black Friday and Christmas.

In Black Friday alone, in one day we sell the same amount as we sell in a month. So based on the commercial point of view, in order to have an impressive sale, we need to have volume and we need to be very -- working very close to our suppliers. So it's a different analysis compared to the other years.

So the snapshot of the balance sheet of the third quarter reflects those effects in inventories and also in suppliers. But in the total working capital view, we still have a positive effect that we have been obtaining in receivables. But for the last quarter, the expectation is that we're going to free cash because we're going to generate more working capital. And it's more favorable in terms of working capital.

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

That's very clear. Thank you very much.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you.

Operator

Our next question is from Guilherme Muller from UBS Bank.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good afternoon, everyone. This is Gustavo Oliveira from UBS. Fabio, I have a question about the technological platform of the acquisition since 2013. So in summary, it's giving you a positive effect on your top line, marginally positive in your gross margin and overall profitability and maybe not so much on the EBITDA yet, but it's generating a large consideration in cap generation and clearly in the working capital accounts. So my question is -- and you just answered about working capital especially with suppliers, so that drop is in the third quarter -- it was in the second quarter and now you can see it again in the third quarter.

So my question is the businesses that you bought, are they already integrated in your operations or is there still things -- should we expect other things that are coming, things from Direct and logistics business or things -- any things that would come in that would improve your cash generation? Because your working capital is dropping since 2013. From 2013 to 2014 it improved. But as soon as you incorporate Direct, it starts to drop. So all your assets that were bought in the operation, are they integrated already? And when do you think your logistics operations will help you to generate cash because today it's burning your cash?

A - Fabio Abrate {BIO 17940993 <GO>}

Gustavo, thank you for your question. All the companies, the 11 companies that we acquired are already 100% integrated to our business and these companies do not generate any kind of impact in working capital on the contrary.

Our businesses that today are inside our B2W service unit, which are technology businesses and also those related to logistics, they generate cash. So those businesses are extremely positive when we analyze them isolately. And even more positive when we look at them, integrated to our whole business, especially in the marketplace standpoint.

So it's essential for marketplace to have this structuring that we did. So if Marketplace is a service that depends less on working capital, freeing more cash and being a service that is very profitable, having these companies and that know-how in house will only enable us to speed up even more these fronts that generate cash.

So as we saw the evolution in the marketplace went from 1.5% of participation last year to 10% share this year. And again for next year, our expectations are even higher and we're working strongly to at least double this share in our total GMV. All this is part of monetizing the platform that we built throughout the last three years.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay, thank you. Maybe a follow-up on the previous question. When I conciliate your earnings release, consolidated data excluding the Submarino Viagens and logistics and

Digital from B2W, the consolidated earnings that we have is worse than we have in the release. This difference, this worsening of ITR, compared to the consolidated figures, is it mainly attributed to the B2W Viagens or is it excluded because you excluded the transport from the digital business? It's just for me to have a better sense to see if logistics is helping you or not, it's not clear for me yet, sorry.

A - Fabio Abrate {BIO 17940993 <GO>}

That's okay, Gustavo. The effect of the transport companies is minimum in the EBITDA and also on the bottom line, therefore. The difference is between expenses and gross margins. That said, when you look at the effects of CVM, it makes that confusion. That's why we do that adjustment between the figures, but the effect is zero. The effect that we do have, in fact, that is extraordinary in this quarter and consequently the next few months is B2W Viagens that permeates EBITDA and other operational expenses. Consequently it has an impact on the last line -- bottom line of the Company.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Now it's clear. Thank you very much.

A - Fabio Abrate {BIO 17940993 <GO>}

You're welcome.

Operator

Thank you. Next question, Tobias Stingelin from Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good afternoon, Fabio. I have a question. With this large amount of hubs and other distribution centers, how many more do you need -- how much more do you need to invest in logistics? What is your capacity of usage for this investment in logistics that was done, so we can have an idea of how many years you have in freedom not having to invest even more in logistics?

A - Fabio Abrate {BIO 17940993 <GO>}

Tobias, thank you for your question. We have 11 distribution centers, 139 hubs spread out throughout the country. We are very comfortable with what we built and we're ready to monetize all these logistics front that were implemented in the past three years. And we believe that some with marginal investments we will be able to double the Company size.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So you're talking about three, four, five years in marginal investments specifically?

A - Fabio Abrate {BIO 17940993 <GO>}

Yes. For the next three years, we might expand a few distribution centers, but we're not going to have significant investments; and we also want to increase the capillarity through

the hubs. The hubs, in fact, are very important for us to be closer to our customers.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, great. What about people, you said that there are more than 1,000 people working with logistics. Do you need more investments in that? I know that acquisitions can always happen, but assuming that you don't acquire anything else and you're going to double your size, will you need more people?

A - Fabio Abrate {BIO 17940993 <GO>}

The 1,000 people that we mentioned in our call are engineers specific in technology to develop solutions for e-commerce, they're not on the logistics front.

Q - Tobias Stingelin {BIO 18290133 <GO>}

That's exactly my question. This part is also scalable. You can double your earning in theory if you don't put any more people in that field.

A - Fabio Abrate {BIO 17940993 <GO>}

That's true, yes. Now as the Company grows and faces new challenges, we have to bring expertise to the Company. But I would say that today we're much better positioned than we were three years ago. Almost -- I would say that most of the best technology professionals in Latin America today work here with us and I can ensure that they're very happy and we're building a unique business.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, excellent. My last question, can you give us an idea of how this market evolved from the past year like free shipping, average time, just for us to have an idea of how this evolution took place?

A - Fabio Abrate {BIO 17940993 <GO>}

The market continues extremely competitive. We don't have, as you well know, access to other figures other than B2W. We have a limited access to the figures of some of our competitors, but what we do see in fact is a fierce competition. We believe that we can balance well sales growth with margins for the Company.

Q - Tobias Stingelin {BIO 18290133 <GO>}

What I'm thinking is, we have access -- limited access to some information, EBITDA we have, how much free shipping was. You have more access to that figure. Do you have any consolidated figures to share with us about that?

A - Fabio Abrate {BIO 17940993 <GO>}

Again, Tobias, the market continues very competitive in all its variables starting with the price that you see at the websites all the way to that dynamic of shipping and also in installments and the discounts that are given when you work with banks.

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So you might be less aggressive in shipping, but you're more aggressive in price. Sometimes you are less aggressive in price, ended up choosing to give more installments. So there are many variables that you have to control all the time. What I can say is that looking today and one year ago, I think that this scenario is as competitive as it was before.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. Thank you very much.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you.

Operator

The Q&A session is now closed. I'd like to pass the floor to Mr. Fabio for his final remarks.

A - Fabio Abrate {BIO 17940993 <GO>}

I would like to thank everyone for their participation in our conference call and webcast. I'd like to take this opportunity to invite you to check our major offers on Black Night, on Americanas.com, Submarino, Shoptime and SouBarato. In addition, get ready for the best Black Friday in Brazil on our web site, which will take place on the 27th. In case you have any further questions, our Investor Relations team is at your disposal. Good afternoon and thank you everyone.

Operator

The B2W conference call is now closed. I'd like to thank you for your participation. Have a good afternoon and thank you for using Chorus Call.

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