

Q1 2012 Earnings Call

Company Participants

- Francois Bloquiau, IRO

Other Participants

- Andrea Teixeira, Analyst
- Joao Mamede, Analyst

Presentation

Operator

In progress [ph] Investor Relations Officer of Lojas Americanas. This conference call is being recorded and all participants will be connected in listen-only mode during the Company's presentation.

Then we are going to start the Q&A session when further instructions will be provided. (Operator Instructions) A replay facility of this conference call will be available right after its end for one week. You should also be reminded that today's event has a support presentation available at www.b2winc.com.

Before proceeding we would like to clarify that any forward-looking statements made during this conference call regarding B2W's business outlook, projections, operational and financial targets are mere beliefs and assumptions of the Company's management and are based on information currently available. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions because they refer to future events and therefore depend on circumstances that may or may not happen.

Investors should be aware that general economic conditions, industry conditions and other operational factors may affect the future performance of B2W and may lead to results that will be materially different from those expressed in such forward-looking statements. Now, I would like to turn it over to Mr. Francois Bloquiau who will start the presentation. Please Mr. Bloquiau, you may start.

Francois Bloquiau {BIO 17267717 <GO>}

Good afternoon, ladies and gentlemen. First of all, I would like to thank you all for your attendance to our conference call to announce the results of the First Quarter of 2012. First quarter B2W reaffirmed its commitments to deliver a better service to its customers.

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We focus on a deep revision, a consequent reorientation of our practices and processes aiming to create a new relationship with our customers.

Many internal and public indicators have already demonstrated in these three months the significant evolution of our satisfaction rates. This result is the consequence of a wide and effective mobilization the entire organization of important investments in all our areas of operations and in our customer service centers.

Many initiatives are already going on and we would like to highlight the projects to install a new distribution center which will bring the Company closer geographically to its customers. Other initiatives will show results in the medium and long term.

However this quarter, with the advances that we have attained so far had not yet provided us a growth in sales which is below our expectations. We believe that our strategy once fully integrated will create the competitive differential that the Company wants will increase revenues combined with operational excellence and customer satisfaction.

Now we are going to start our presentation on slide number 3. On slide number 3, you can see the main highlights of the First Quarter of 2012. In this period, important results have been reached of which we highlight consolidated net revenue reached BRL1,001,200,000. And the net revenue of the controlling Company was BRL918,400,000 million. The consolidated EBITDA totaled BRL60 million and the EBITDA of the controlling Company was BRL45,600,000.

The share of Submarino cards in the sales -- in the Submarino site reached 37% in the First Quarter. The number of complaints in B2W's website that were filed at SINDEC totaled 3,044 with a 53% reduction as compared to the same period in 2011. We launched Submarino on Demand which makes it possible for customers to watch movies and series on the internet without interruptions through streaming technology. The launch of Online Help of Americanas.com which counts on a trained professional dedicated to help and answer questions of our customers thereby increasing customer satisfaction.

On slide 4, you can see the evolution of the net revenue. The consolidated net revenue of the First Quarter of 2012 reached BRL1,001,200,000. The net revenue of the controlling Company reached BRL918,400,000 in the First Quarter of 2012.

On slide 5, we will be talking about EBITDA. On the First Quarter of 2012 EBITDA consolidated, reached BRL60 million and EBITDA of the controlling Company reached BRL45,006,000 (sic--see slide 5).

On slide 6, we will be talking about the participation of Submarino card in sales. It has been increasing steadily reaching the mark of 37% of the total sales of the website Submarino in the First Quarter of 2012.

On slide number 7, you can see the evolution of customer service indicators. On the First Quarter of 2012 the number of complaints filed at SINDEC, the National System of

Consumer Defense for the three websites of B2W totaled 3,044 which represents a significant reduction of 53% as compared to the same period in the previous year.

We can also note an expressive improvement in complaint indicators at the court of Rio de Janeiro where the number of complaints in the First Quarter of 2012 totaled 964, a reduction of 63% as compared to the same period in 2011. As to the number of complaints at the website Reclame Aqui B2W's three websites have presented a significant improvement of 39% in the number of complaints in the First Quarter of 2012 as compared to the same period in 2011.

Another important evolution in relation to complaint rankings in Reclame Aqui website were at the end of March Americanas.com ranks 9th amongst the companies with the most complaints over the past 30 days, a significant evolution of seven positions as compared to the same period in the previous year, whereas Submarino and Shoptime are not listed in this ranking.

In spite of the excellent evolution, it is important to consider that these numbers only consider absolute numbers but they do not include the number of complaints as percentage of sales and in this manner it would be much better. In this manner improvements in internal processes are being implemented and we are sure that even better levels will be reached.

On slide 8, we will be talking about the launch of Submarino on Demand. Submarino has launched the service Submarino on Demand which makes it possible for its customers to watch movies and series on the internet without interruptions by using the streaming technology.

In slide 9, we talk about investments and innovations. We have adopted an investment plan whose purpose is to enable growth, improve our operations and improve the purchasing experience of our customers. In the First Quarter of 2011 we invest BRL67 million especially in operations/logistics and technology.

Logistics; B2W has been investing steadily in the optimization of its logistics systems and its distribution chain. In the last few months, new equipment were installed and several construction works were finalized in our distribution centers which increase the level of automation and reduce the time for delivery and mistakes caused by human errors. We also installed new systems to comply with fiscal and legal requirements.

Another important front of investment is the development of new customer service systems that will enable B2W to operate more efficiently and assertively.

Besides, we have established strategic alliances with the main shipping companies in the country fulfilling our commitment, our joint commitment to offer the highest service level to our customers.

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In November 2011, we started to operate a new distribution center located in Recife in the state of Pernambuco. On February 10, 2011 we celebrated the agreement for the setting up of a new center in the city of Uberlandia, Minas Gerais. The new distribution center speed up the delivery of products supplied at Company websites and enhance service to customers based in Minas Gerais, the Midwest and northern Brazil.

In addition to this, there is the project of opening a distribution center in the city of Rio de Janeiro. Those initiatives are in line with the Company strategy of seeking to offer the best customer service possible in all regions of the country.

Technology; Technology investments have the objective of optimizing our back office systems, the sales layer and our peripheral systems, for example, payment methods and business information systems. Thus the Company is able to benefit from connectivity gains and is poised to support future growth of its operations.

Also worthy of note are the faster loading of pages on the websites, more agility in commercial initiatives and great enhancements to our business information systems.

As for the investments and technology platforms in the areas of logistics and operations, TV, customer service and telesales they aim at the heightening of the quality and efficiency and providing an even better shopping experience to our customers.

Pursuing its innovation strategy, B2W continues to invest in new functionalities with the objective of improving sales experience, conversion rate and reinforce its brand's positioning. In the last year, over 80 projects were implemented involving the overhauling of its technology platform and the introduction of new functionalities.

Among the projects launched this year, we would like to highlight the implementation of the "buy with 1 click" tool on Shoptime. After implementing the fastest sales tool on the Internet on Americanas.com, Submarino and Ingresso.com we offer the convenience and ease of shopping of 1-click shopping at its own website.

Launch of a new search engine at Submarino. The Submarino search engine was overhauled and the results became more assertive and more relevant with features that increase convenience such as auto-complete search suggestions and automatic filters.

Product recommendations. The product recommendation system was redesigned and now includes new functionalities that improve the shopping experience and the assertiveness of the offering.

Customized offers sent through e-mails. Submarino now sends customized offers using real time behavioral data. In addition to improving the relevance of the offers to the customers, conversion and average tickets are improved in result.

Code bar scanner and QR code. Now it is possible to use the iPhone and Android mobile apps of Americanas.com and Submarino to read bar codes of products and locate them

on the website. It is also possible to read promo codes and displays by using the QR code.

Launch of the app for Nokia phones. With the objective of offering even greater convenience to its customers and reinforcing its strategy of expanding its service offerings, B2W launched an app for Americanas.com and Submarino for Nokia phones. In addition to this, the clients that have iPhones and Android enabled apps now the Nokia customers can also shop this way.

The Easter app acting very nervously Americanas.com developed a platform for the use of secret friends for gift giving online via social networks for the Easter season. This initiative is a fun way of exploiting the seasonal event to generate more ecommerce sales.

The launch of the feedback channel at Shoptime. We developed a channel at the Shoptime website so that customers can make suggestions for new products improvements, answer any questions they may have among other purposes. The channel has the objective of improving our services and enhancing the online experience of the customer.

On slide 10, we will detail some of the highlights of the subsidiaries; B2W in line with its strategy that is multibusiness, multichannel and multiband continues to invest in new internet businesses. At the end of 2011 we launched the SouBarato.com.br website, an important channel for the marketing of overstocks. The site has shown excellent performance and constitutes a great opportunity for growth. In addition to this we continue to invest in movie rentals, tickets, consumer financing travel and as we will detail later on.

Ingresso.com. B2W Following its expansion plan continues to increase its presence in other countries. We now have 284 movie theaters in Mexico, 139 in Chile and 83 in Argentina through a partnership with the Cinemark chain of theatres. The Company continues to prospect new countries in order to replicate its business model.

In Brazil, Ingresso.com keeps on growing strongly propelled by the sale of blockbuster movie tickets and also in rooms with pre-assigned seating and the growth of 3D films. In addition to this more sale of tickets are being sold to Brazilians in Rock in Rio and Rock in Rio Madrid.

Ingresso.com has invested improvements to increase comfort and convenience for its customers such as exemplified by the launch of apps for the iPhone, Android phones and the adoption of the Express Caixa, that makes the purchasing experience even faster.

Submarino Viagens, Americanas Viagens and Shoptime Viagens. In December 2011, we officially launched the travel operations for Argentina through the brand Submarino Viajes.

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Submarino Finance. The share of the old card in sales has been growing, steadily reaching 37% of total sales on the Submarino website in the first three months of 2012. Currently, Submarino Finance has a base of over 710,000 cards issued.

Blockbuster Online. With the largest collection of DVD and Blu-ray discs in Brazil, a number of titles, Blockbuster Online continues to expand its operations and started offering services to the Federal Districts in addition to consolidating its presence in the states of Sao Paulo, Rio de Janeiro, Minas Gerais, Parana, Santa Catarina and Rio Grande do Sul. Since the end of the year, Blockbuster started to offer a new pioneering service to its customers becoming the first online movie rental Company that rents also games.

Now moving on to slide 11, we would like to reinforce our perspective and priorities for the next quarters. Our strategy is based on improving our competitive position in the retailing market through heightening our services level in customer service to our customers. Growing our sales and growing operating cash by continuously improving our operations.

Capturing operating synergies and competitive advantages resulting from the integration of Americanas.com, Submarino and Shoptime. An increase in the sales of our business at the subsidiaries Ingresso.com, B2W, Viagens, Blockbuster Online and Submarino Finance.

Constant technology updating and innovation for all our business units, the search for higher levels of efficiency both in operations and logistics, training of our associates so that they can face up the challenges that are presented by our growth trajectory, increase of our base of active customers, increase of shopping frequency, innovation and new Internet business.

And with this we conclude the conference call with results for the First Quarter of 2012. I thank you all for your kind attention and now we will move on to the q&a.

Questions And Answers

Operator

Excuse me, ladies and gentlemen. we will now begin the questions and answer session. So that we have enough time for everyone to participate we kindly request you to be brief in your comments. (Operator Instructions)

Joao Mamede from BTG Pactual.

Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon, to everyone. I have two questions. The first one regarding investments that you are making in the openings of your distribution centers. I know you opened a new distribution center in Recife, there is one for Uberlandia and I know you have signed a contract early this year. My question is that are you going to open a new distribution center. This is the first question.

Second question regards competition. This is something that has really been bothering you and some other players because some competitors are practicing very aggressive commercial terms. My question is do you see any sign of improvement. I know that this is a recurring question that you are always asked but over the past three months, what do you see in terms of improvement to being the same or getting worst, these are my two questions. Thank you very much.

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A - Francois Bloquiau {BIO 17267717 <GO>}

Good afternoon, Joao. Thank you for your participation. Well as to your first question, the logistic investment will not stop. We are considering our strategy as we have already described and we have very clearly talked about it on the past calls.

We are a Company with a long term vision today focusing on a significant improvement of customer relationship and services. And all of this just leads into important investments in technology and also in logistics. We have already started to invest intensely in logistics as you just said.

We started operating in Recife since November 2011, Uberlandia is due to start this year, Rio is also being negotiated and we are not going to stop there. In terms of logistics, we believe that we have to get closer and closer to our customers and that is why we are going to intensify investments in new distribution centers with the idea of being faster, being closer to customers and also to optimize the last mile, the last mile of the delivery to the houses of our customers.

I think that the more pulverized our logistic chain the more will we be able to deliver products to our customers in a fast manner. And that is why we are working more and more with transportation companies. In some states we have exclusive agreements and in other states we are working on integration with the aim of being closer to our customers, which means that at the end we will have a great differential. And a great competitive advantage in the services we render to our customers in terms of speed and quality.

So investments will continue and they will continue -- and this is a good transition to your question -- competition is aggressive, yes; we still see very fierce competition. We really were able to see that and the competitive advantage that we are working very hard to create today will make it possible for us to deal with a challenge posed by the competition.

So the competition is aggressive in terms of margin prices, discounts and commercial terms and we need to grow and we will grow and that is why we need to tackle that. And your question at the end, one answers the other; competition is fierce, we are not just going to compete with prices, the number of installments (inaudible). But also with better services, a better relationship with our customers and not just investing in logistics but also in technology. Thank you very much.

Operator

Andrea Teixeira from JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, thank you. Good afternoon. And thank you for answering my question. Well last quarter I asked the same question and I would just like to see if anything has changed. What the market is really wondering is your use of cash or cash burn. And what you had said, we do not want to invest any capital in B2W and we are not planning this until the end of the year.

And how far will this continue because the feeling I have is that by the end of the year, you would need some extra capital. Are you going to shrink the Company slightly, are you going to reduce some categories which are more sensitive to working capital, how are you dealing with that in terms to reduce times up to the point when you lose competitiveness?

A - Francois Bloquiau {BIO 17267717 <GO>}

Good afternoon, Andrea. Andrea, thank you for your participation. As to our cash needs, what we have always said is that we adapt to our needs to grow our business; so the outlook is not to shrink any category. Our outlook, our prospects is the following.

We are in the ecommerce market in Brazil because it is a market that we consider very promising with huge future opportunities and we really want to win in this market but growing in this market does not mean that we are going to work for the next quarter, it means that we are going to work with a long term vision.

It is an extremely appealing or attractive market, yes, it is but it is a market where growing requires intense work, lots of investments and a long term vision. With that sense, you need to see the current situation from a broader perspective. B2W is a new Company, it's five years old. It was built almost without any cash. It started without any cash, the generation of operational cash grew from 0 to 5b [ph] today. And a longest history we have always found sources of cash in order to meet its needs to grow.

In the future, it will be the same but you need to see that we are here, we want to grow intensely in this market. We are willing to make the necessary investments and the necessary expenses in order to attain that. And considering that we will make the necessary adjustments with all the structure, funding structure and capital structure. But our determination to grow in the long term and to win in this market is very strong. So today, we do not think of reducing any categories; much to the contrary we will grow, we want to increase categories of course always looking in terms of profitability and trying to balance with traditional areas of retail. And this is very important to us. But growth will happen, will take place.

Our care and caution with the operation has made us learn that it is impossible to have a one -- manage a one billion operation in -- ecommerce operation in Brazil that is worth BRL1 billion and BRL5 billion. We learned the hard way in 2010 -- we have turned that page but we learned a lesson there.

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We will grow but as we feel comfortable to always deliver the best service level possible in terms of quality, the best services to customer, new services, better assortment. We know that growth will take place, will happen but always trying to balance our operational capacity in terms of render the best services possible to our customers. This is how I answer your question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

I understand but over the past five years your shares have gone from BRL60 to BRL7. And some points you need to see the result of that and maybe it is not uniform, maybe in some categories, it is difficult, you have to choose one or the other. It is a market that is difficult to build, maybe it will take much longer, maybe this is a paradigm, maybe it is not worthwhile selling certain categories online because of excess working capital.

At some point, it looks to me that will need to trim, to cut.

So you are telling me, you are not saying that you are not going to have any capital injections this year so maybe you don't need any extra capital, you chose to have a very competitive Christmas, this is my question basically, more thinking in terms of 12 months.

A - Francois Bloquiau {BIO 17267717 <GO>}

My answer is the following. First, there is a very important point because indeed the consolidation in this market both in terms of categories, prices, business models it is taking much longer than many people would have thought. We are very clear about that. We are really fully aware of that. And that is why we really insist in this long term vision, this caution and balance vision because this market is very appealing, we really believe in it but it will take a while before it is stabilized. But certainly so soon as it is stable, it will be great business.

And in the sense packing categories is not what we are thinking about, not our strategy. Our strategy will be to grow in the categories that make more sense to offer the wider assortment possible to our customers and to make our business work in a long term based on our investments that we are making in technologies and in investments and in technology and operations. This is our vision.

As to cash needs, we will continue operating financially speaking the funding structure and capital structure will be based on the needs that we will come across over the next month, the next year, this is what we have always said. We have a continuing vision process of those needs and we will look at the evolution but one major objective is to invest in this market, this is a market that we really believe in.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions)

Excuse me, we will now end our q&a session. I would like to turn it over to Mr. Francois Bloquiau for his final observations. Please Mr. Bloquiau, you may proceed.

A - Francois Bloquiau {BIO 17267717 <GO>}

I thank you all for your attendance to our conference call and webcast. I take the opportunity to remind you that if you still have time to go shopping for Mother's Day in our websites Americanas.com, Submarino. And Shoptime that have offers that you can't miss in more than 35 products categories. There you will be able to enjoy our offers and to buy.

And do not fail to take advantage of our website for travel tickets, movie rentals and restaurant reservations; all of this with a convenience, ease and safety that only B2W can offer. Moreover, our investor relations team will be available to answer any questions you may have. Thank you very much and have a good afternoon.

Operator

B2W conference call has now ended. We thank you very much for your attendance and have a good afternoon. Thank you very much.

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