

## Q2 2016 Earnings Call

### Company Participants

- Fabio da Silva Abrate, Chief Financial Officer and Investor Relations Director

### Other Participants

- Fabio Monteiro, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Joao Mamede, Analyst
- Joseph Giordano, Analyst
- Robert Ford, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good afternoon and thank you for waiting. Welcome to the B2W Companhia Digital Conference Call to discuss the earnings for the Second Quarter of 2016. Today we have with us Mr. Fabio Abrate, CFO and Investor Relations Director of B2W and Mr. Murilo Correa, CFO and IRO of Lojas Americanas.

(Technical Difficulty) the supporting presentation to follow this conference call available at [www.b2wdigital.com](http://www.b2wdigital.com). We would like to inform you that this event is being recorded (Technical Difficulty) then we will begin the Q&A session for which instructions will be given. (Operator Instructions)

(Technical Difficulty)

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

Future consideration are not guarantees for its performance They involve risks, uncertainties and assumptions as they refer to future events and therefore depending on circumstances that may or may not occur. Investors must understand that the overall market conditions, industry conditions and other operating factors could affect the future performance of B2W Digital and could lead to results that materially differ from those expressed inside future consideration.

Now I would like to hand over to our speaker who will begin the presentation. Mr. Abrate, please proceed.

## **Fabio da Silva Abrate** {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen, I would like to thank everyone for participating in our conference call. Throughout the presentation we will address the results of the second quarter of 2016, the commercial and operating highlights and the investments made.

We'd like to start our presentation on slide three. On this slide, we'll talk about the evolution of the main indicators of 2Q '16. Total GMV achieved 2.5 billion in the quarter increasing 7.2%. Marketplace is still rapidly developing, growing a 152% reaching 398 million of GMV and a share of 15.9% of the total GMV, which represents an increment of 9.1 percentage points year-over-year.

In the past 12 months Marketplace grew 324% reaching BRL1.4 billion in GMV. Again in the past 12 months, we achieved 330,000 new customers. And the second quarter of 2016 signaling a growth resumption which is very important to B2W leading the first three months of the year in the past where we had an unfavorable environment for business and we did not grow.

However, the beginning of the year enabled us to learn even more from our business and created tighter relationships with our merchandize and service suppliers and with the Marketplace sellers. This period of turmoil was very important for us to review our cost structure in a strong manner and to more efficiency and speed in our processes. The adjustments made provided significant operating leverage for the period and also a more streamlined structure, so we can capture all of the good opportunities that are yet to come. We would like to reiterate that we're still very confident of the potential of growth of e-commerce in the upcoming years and we're ready to continue to invest in this platform and monetizing all our business fronts.

On slide four, we would give you the details and evolution of B2W market share. As a result of the investments made in past years, B2W market share expanded 4.4 percentage points, moving from 19.9% in the first half of 2012 to 24.3% in the second quarter of 2016. With that, the position that B2W have from the second layer increased from 2.9 percentage points to 8.3 percentage points.

On slide five, we will talk about the advantage -- the advances in commercial and marketing. Better shopping experience of the B2W customers is the consequence of the operating excellence and management of commercial variables. in relation to inventory management B2W has a stock-out rate, which is lower than 10% and recording evolution of 1.5 percentage points in 2Q '16 quarter-over-quarter.

The assortment extended 38% in 2Q '16 year-over-year. We've gained 19% in productivity in the distribution centers as a result of process improvement and by implementing automated building lines, resulting in a faster turnover time for delivery for our customers.

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On slide six, we would like to highlight the fast development of Marketplace. Marketplace added over 1,500 sellers throughout the first half of the year, moving from a base of 2,500 sellers at the end of 2016 to over 4,000 sellers on June 30th, 2016. In the past 12 months, Marketplace presented a strong performance, growing over four-fold and reaching BRL1.4 billion in GMV. In 2Q '16, Marketplace reached a share of 15.9% in the total GMV, a growth of 9.1 percentage points year-over-year.

On slide seven, we would like to highlight the new partnerships that Marketplace has, in line with B2W's strategy to integrate new stores in several different sizes and different entities. B2W Marketplace has closed partnerships with important stores such as Sephora - Beauty, Health and Perfumery; Polishop - Home Appliances and Sporting Goods; Havan - a Department Store; Pacheco - Drugstore; and Connect Parts - Automotive.

It's worth noting that B2W is committed to only connect sellers with good standing to the platform. We have a very clear objective of creating the best and largest Marketplace in Brazil, where the customers can trust the products that they buy and the sellers that we are absolutely sure that they can grow their business, having access to the most profitable customer base in Brazil, through the dearest brands on the web. It's also worth noting that B2W has a very strict potential to screen our sellers, to again [ph] see that all legal conditions are being fulfilled and that the customers are absolutely sure that they're buying quality products from qualified sellers.

On slide eight, we highlight the launching of B2W Ads, a platform through which a proprietary algorithm enables sellers to acquire advertisement spaces in the web -- B2W websites, giving more visibility to their products and multiplying their sales. The tool generates information such as total people impacted, number of clicks, sales results, conversion rates and ROI, in real time, enabling streamlining the marketing campaigns. B2W Ads was developed by Admatic team, a company specialized in digital marketing, acquired by B2W in 2015.

On slide nine, we highlight the launching of Sieve Seller, a platform that enables sellers to create pricing strategies according to the competition's behavior, increasing their chances of winning the buy box and optimizing inventory turnover and the profitability of the products. The novelty is a result of Marketplace integration with Sieve and Skyhub, companies that were bought by B2W also in 2015.

On slide 10, we show the evolution of the logistics platform from the Company that aims at being closer to the customers and offering the best delivery service. B2W Digital operates with 11 distribution centers throughout the country. In 2Q '16, the storage area of B2W totaled more than 500,000 square meters, a 35% growth year-over-year. The Company also has 161 hubs strategically positioned throughout the country, a 68% increase when compared to the 96 hubs that were operating year-over-year.

On slide 11, we show the evolution of the Company's distribution platform. In 2013 and 2014, B2W bought the two main transport companies specialized in e-commerce in Brazil, Click-Rodo and Direct resulting in the creation of B2W Distribution Unit. Throughout 2Q

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'16 the share of B2W Distribution Unit reached 81% of the total deliveries carried out by the Company when compared to 55% share of delivery in 2Q '15.

In this first half year of 2016 the B2W Distribution Unit started delivering to 30 new clients representing 1.7 million new deliveries per year. Of these new customers, 10 are among the greatest Marketplace sellers. The verticalization of distribution enabled the creation of Shipping Menu that today offers six options for the country; Same Day, Next Day, Quick, Economic, Scheduled and Store Pickups. The Shipping Menu has been a huge success with the customers that get their products quicker -- quickly and it enables the Company to increase their shipping coverage rate. The revenues from shipping divided by the shipping expenses.

In slide 12 we show the logic -- leadership position of B2W Digital in migrating from e-commerce to m-commerce. The traffic in mobile devices reached 49% of the total clicks in 2Q '16, a 71% growth compared to 2Q '15. This growth was triggered by the four apps of the Company; Americanas.com, Submarino, Shoptime and Sou Barato, that reached more than 2.3 million downloads in the first half of the year, a 188% growth year-over-year.

Now going to slide 13, we highlight B2W Services. A result of integrating 12 acquired companies among which 10 technology companies and two transport companies specialized in e-commerce, B2W Services offers full solutions in technology and logistics to provide support to the sellers operation in the Marketplace, and online operations of large partner brands.

On slide 14, we highlight B2W Digital's position as number one in customer service in Brazilian Internet. For the third year in a row, Americanas.com and Submarino won the most important categories of the E-bit Award in 2016, Best Diamond Store and Most Beloved Diamond Store. Also the four B2W brands are considered Reclame in customer service, reaching the most -- the highest levels of reputation at the Reclame Aqui website.

The average rating given by the customers at Reclame Aqui for B2W brands are 7, while the brands of the competitors have an average of 4.7, also 75% of the customers that recorded complaints at Reclame Aqui said they intend to buy again from B2W brands while only 51% of the customers said they intend to buy from the competition. Therefore the solution rate of B2W is 91% while that of the competition is 72%.

On slide 15, we highlight our most important assets, the best and largest digital team in Latin America. Between June and September this year, we will have at our headquarters in Rio de Janeiro and BIT, Sao Paulo, graduation and MBA students from the best universities in the United States for the summer internship, a recruitment program for foreign students that in fact is providing a learning experience in a real environment in a Brazilian technology company.

The Company also started part-time internship program in their advanced research office in Boston, aiming at getting students from North American universities. Also B2W is still expanding its recruitment for data science and analytics, aiming at building to have a digital talent bank to give support to the new projects.

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Go to slide 16, we are reiterating our commitment to sustainable development. B2W Digital is the first and only e-commerce company that is part of the business sustainability index portfolio at BM&FBOVESPA. B2W offered support to four new projects at BM&FBOVESPA, including four states in Brazil; Sao Paulo, Rio de Janeiro, Rio Grande do Sul and Pernambuco benefiting 5,000 people directly.

In 2015 and 2016, B2W provided support to 10 projects based on the UN's Sustainable Development growth always focusing on education environment and sustainable development. B2W also has a partnership with the Committees for Informatics Democratization and with the Secretary of Education at the State of Rio de Janeiro. In the project called TecEscola training of 1,500 students of technology, 150 in web design and 15 in Java. In addition to 150 teachers and 50 teaching units in the state network already trained in the project to train 15,000 students.

Going to slide 17, we highlight the evolution of B2W Digital in financial markets throughout the past years, raising cash management and reducing the future need for investments. Therefore the CapEx as a percentage of total GMV reduced 12% in 2015 to 5% in the first half of 2016, while the coverage index for CapEx by EBITDA grew from 60% to 122% in the same time.

We could see throughout the presentation that investments carried out generated gains in scale and importantly trends to develop the Marketplace and in leadership from the migration to mobile devices. Between 2016 and 2020 B2W will continue to invest in the digital platform to connect people, products, services and businesses making all business fronts profitable with the aim of generating value for its shareholders.

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

Those were the main comments related to our performance in 2Q '16. Now I'd like to open the Q&A session so we can clarify any essential doubts you may have. For everyone to have a chance to participate, please 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 Joao Mamede from Santander.

### Q - Joao Mamede {BIO 15265292 <GO>}

Hi, Fabio. Good afternoon. I'd have two items that I would like to discuss. The first one is related to GMV growth in the Marketplace. We've been observing especially in the past

months in the quarter, a very speed up in Marketplace and this quarter was no different. But you've been adding a lot of sellers throughout the quarter, so the number was even higher.

I'd like to understand the evolution of this marketplace penetration throughout the quarter and for July -- the beginning of the third quarter and beginning of August, how was that done? Because many sellers will be added and based on the partnerships that you've closed. So that's the first point.

And the second point that I'd like to explore more is working capital. There was a cash burn because of that it was a bit higher in this quarter. I believe that there may be some lines that will adjust, correct me if I'm wrong, throughout the second quarter. Obviously, the fourth quarter is stronger, you're going to have stronger cash generation. So what specifically happened in this second quarter? If you can talk about the evolution of that in the working capital throughout the second quarter decree [ph]? Thank you.

### **A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Good afternoon, Joao. Thank you for your question. In relation to the first point, we're very excited with Marketplace. In fact it's one of the most important initiatives here at the Company, which has strongly driven the growth of our GMV and giving our business more margin and giving us a financial balance between growth and profitability. And overall providing more assortments for our customers because at the end of the day, our objective is being the benchmark in products searched on the web. So Marketplace helps that in a very expressive manner. So we can have more and more assortment to offer to our customers.

When you look at the second quarter of 2016, compared to the second quarter in 2015, we've implemented our assortment in 38 -- by 38%, mainly resulting from the assortment that was brought by the new sellers. We're very excited about all of this. For the entire quarter, we've had an opportunity to bring in new important names in all categories, all kinds of sizes as well in the industry. And it was very -- we have a very strong criteria to add sellers to our base but we have evolved. At the end of June, we had 4,000 sellers connected. And as you well reminded because the partnership last quarter with VTEX and Rakuten. So we are still in the beginning of bringing over 2,500 sellers that are on these two platforms here into our business. Not to mention the organic natural growth of the business itself we have this opportunity as well, where we will soon add these 2,500 sellers from these two platforms VTEX and Rakuten and its a business that's growing, it grows a lot.

When you see -- we analyze Marketplace on a monthly basis. One compare -- month compared to the other, two years of operations, so it already has a GMV of 1.4 billion. It's much larger than a lot of people that operate e-commerce in Brazil. And once again it is fantastic because we drive small, middle and large-size business. We really foster entrepreneurship. So it's a win-win situation and we believe, we have the best value proposition for sellers. We have the dearest brands on the Brazilian Internet with extremely qualified traffic and a logistic and technological platform that will support these sellers.

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So all investments that we made to B2W in the past three years were done, so we can structure this Company not just to operate one team [ph] which are the direct sales of merchandize, but also to provide support to Marketplace sellers, because they face the same challenges that B2W faces to operate e-commerce in Brazil.

So, we are seeing many sellers talking to us and that want to adhere to our logistics platform, so in the first thrust we've brought in through 30 new customers to the logistics business and 10 out of those 30 moved to the top 20 sellers of Marketplace. So, we launched that and -- so there -- the seed [ph] sellers and there are many opportunities that we have to offer our Marketplace sellers, everything that we build for our business and it's been a learning experience not just Marketplace alone, but Marketplace connected to our 1P business. This hybrid business and harmony is in fact the beauty that this platform has to offer. So we can explore this in a very correct way, the type of assortment that we have to have in our 1P business and the type of assortment that we have to have in our 3P business. So once again, we are very excited with Marketplace. And we are growing it on a monthly basis.

In relation to your second comment about working capital. When we look at the relationship of the suppliers year-over-year, we are doing better in approximately 10 billion. So but there is something important which is seasonality, right, in our business. So the first and second quarters of the year and mainly related to this relation of inventory and supplier isn't the best snapshot of our business.

We have been very focused on the third quarter and especially in the fourth quarter of the year. So when we look at the figures from the middle to the end, the working capital snapshot is better. And then when you look it from -- look at it from the beginning to the middle we are pretty much paying the bill of those events that are extremely important to our business -- businesses. So it's a seasonal effect.

**Q - Joao Mamede** {BIO 15265292 <GO>}

Great. Fabio, thank you. Just one more comment related to growth and your competitive dynamics. We've heard from some other sources in the industry that even in 1P, the competition is better now recently, within the past month. Do you agree with that or are you working in the competitive environment that's similar to last year and the previous years? Do you see the expected changes in the 1P competition or not? Thank you again.

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you, Joao. No, we do not agree with that feeling. The scenario is still extremely competitive and it was because of customers' confidence. As you know, the -- what's going on with the economic and political scenario, okay. It is getting better, but it's not as we want it to be. And if you consider that, in a scenario that was already competitive, I'd say, it's worse.

But we're continuously looking for a balance between sales growth and the profitability of our business.

Bloomberg Transcript

## Operator

Our next question is from Fabio Monteiro, BTG Pactual.

### Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon, Fabio and everyone. Still in Marketplace, I would like to understand, what is the percentage that in the GMV of Marketplace there are products that supplement B2W mix, products that you sell, I don't know if you can give us an idea about that?

### A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Hi, Fabio. Thank you for your question. We don't advertise that -- communicate that indicator. The goal of the Marketplace is to work with assortment categories that are specialized. That doesn't make sense, for us to operate in the traditional model of buying, stocking and selling. We try to bring assortment and unique products for our business in the Marketplace.

### Q - Fabio Monteiro {BIO 3711690 <GO>}

Okay. Thank you, Fabio. Can you also explain how the compensation of B2W Ads work?

### A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you, Fabio for your question. B2W Ads is a very recent initiative. It's an ad platform for B2W that enables sellers to buy advertisement space in our website. It's a proprietary algorithm that was done by Admatic, a company that we bought in 2015. This company is specialized in marketing campaigns. The seller defines how much they want to invest and for how long. And they have full autonomy over their marketing campaigns and the platform it shows reports that enables the seller to follow in real time what they pre-determined.

The tool has intelligence to identify the customers and offer the right products at the right time and the customers that have actual interests in those products, increasing the campaign's performance. The payment here is per click, similar to what happens today in other portals.

### Q - Fabio Monteiro {BIO 3711690 <GO>}

Okay.

### A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you, Fabio.

## Operator

Our next question is from Guilherme Assis, Brasil Plural.

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**Q - Guilherme Assis** {BIO 16143141 <GO>}

Good afternoon. Thank you for taking my questions. I want to explore two aspects. First, in regards to 1P and the competitive environment. We saw according to our estimates that there was a much smaller drop in the second quarter, quarter-over-quarter we had challenges with suppliers and inventory in the first quarter and it seems like these problems were solved, stock level -- inventory levels and assortment is better.

I would like to know some details, what caused this greater drop in the past and what is better now that it's going back to this 1P? And about strategy for 1P, should we expect the Company to continue to gain market share in 1P also, or is the focus now more towards gaining market share for the Marketplace?

And another question, which is also related to this, I want to understand if -- how this settlement was made with the suppliers, which (inaudible) the way in the first quarter and what changed now? It seems like some products were delivered and I want to know if this was 100% solved and if the inventory that you showed in this quarter is already enough to continue to gain market share in the second half?

Thank you very much.

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Guilherme, thank you for your question. In fact this resuming the growth in 1P in the second quarter is greatly related to inventory, which was a critical point. In the first quarter of 2016, in fact, we were unable to buy everything that we needed to sell. We are a very large Company; we sell BRL2.5 billion per quarter. So inventory is our raw material for growth.

So the problem that we faced in supply in the first quarter, was solved throughout the second quarter and obviously the natural effect we could see when we resumed growth. We grew 7.2% in GMV. Our strategy is to grow in both business 1P and 3P, so we want to balance that out with the type of products that we're going to operate within each one of these two businesses in a hybrid manner, but we want to grow both in 1P as well as in 3P.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Okay, Fabio. Thank you. And about the competitive environment you already answered saying that you think that it is still very aggressive and I understand that it's a good strategy for the Company to always be aware of that and having competitive strategies. That is important to keep and gain market share, but what of the large players that is suffering a lot and you show that also how you have been increasing your market share gap?

Have you seen any change in the competitive dynamic among the main players, there is a much smaller player that grew a lot also. So you have any idea [ph] of what is leading to that growth if they're more aggressive in price or if the -- any service or assortment that you don't have that made a smaller player have a greater growth? Thank you.

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**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Guilherme, thank you for your other question. The competitive environment is still very harsh. We haven't seen any reduction in that sense. Everyone is fighting for the same customers and the customers are less willing to buy. So, the scenario is not at all favorable to carry out good businesses.

But when we look at the first quarter, we had several issues that we mentioned in the previous call and one of the main ones was the inventory dynamics that we were able to buy everything that we needed to buy and now we already have a different curve in the second quarter and we went back to growing and resumed growth, which is very important to us.

We are a Company that grows, so we're structured to do that. About the competitors it's hard to say anything. Specifically about one competitor or another. I think we have to look deeply what each one is doing and in fact the size of each of these player's business. You know that B2W invested a lot in these platforms for the past three years.

So we're ready to have a business not just 11 billion in GMV, but much more than that because we understood the challenges to operate e-commerce in Brazil. We did our homework very well and we invested for that and more and more we want to gain market.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Okay. Thank you. Thank you very much, Fabio.

**Operator**

Our next question is from the Tobias Stingelin from Credit Suisse.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you for taking my question. Fabio, at what level of GMV do you think you'll need to do have the investments in infrastructure, logistics? You say that you have 81% optimized capacity for shipping and logistics. Now, talk [ph] a little bit about what you said, how far can you go keeping the investments relatively low?

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Hi, Tobias. Thank you for participating. In fact, today our Distribution Unit already represent 81% of all our delivery, which translates into 45% of share versus the previous year. The relationship capacity, the main investments remain, so, we are here -- we're ready to supply the demand of our business, be it in 1P or 3P in providing that capacity to our Marketplace sellers.

Our investment now, we will continue to invest. We are a technology company and this company demands investments or requires investments. That the investments will be mainly focused on the Marketplace initiative because for us it's very important and in the mobile initiative because the customers' purchasing experience has been changing and

as we showed today 40% of traffic is already coming from mobile devices, 49 -- actually 49% of the traffic comes from mobile devices, which completely changes the dynamics on how we relate with our customers.

So the platform that was desolate for a laptop in the past, today it's a completely different platform. Everything that's developed in the company is first developed for mobile.

And then it is adjusted to desktops and laptops. So Marketplace in mobile for us creates a very important front that will require these investments in the next year. As we've been informing as well, these investments overall will be at lower levels than the ones that we've seen in from 2013 to 2015.

### **Q - Tobias Stingelin** {BIO 18290133 <GO>}

And following up on Fabio's question, when does the business resume growth? You said that you see market is still very competitive and GMV is growing. But once we are dropping, how do you think that this -- when do you think this market will resume growth?

I know it will, because you are focusing so much on Marketplace that your 1P is going to continue to drop. So I'd like to understand how you see that?

### **A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you, Tobias for your question. When you look at the second quarter, in gross revenues that really translates the 1P business, we are pretty much flat year-over-year. So the bad period that we had in the first quarter that's over and when you look at the more recent months, you can see that we started to grow the 1P business again. So we're very optimistic, looking at the upcoming six months, not only in 1P, but also in 3P.

### **Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you again.

### **Operator**

Our next question is from Robert Ford from Bank of America Merrill Lynch.

### **Q - Robert Ford** {BIO 1499021 <GO>}

Hi, Fabio and Murilo. Thank you for taking my question. I would like to talk about the trend of paying an installments with no interest, so I've seen that in initiatives that you won't be able to change in the future.

### **A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you for your questions. The market has been operating in varying interesting rate. Yes, we had some changes in the dynamics of paying installments with no interest added. So the market isn't looking at the categories that in fact requiring paying in installments and where it actually makes sense to grant this type of benefit to our customers and/or it

doesn't make that much sense. So we have seen a reaction of the market in the net payments [ph] to balance that out better, to what we used to see. Two installments, no interest for the entire website. I'd say that we haven't reached the best development in that, but yes, we have observed some market movement to try to get a better balance in that, in paying installments with no interest.

**Q - Robert Ford** {BIO 1499021 <GO>}

And what's the selling level for this type of payment method, and what do you expect until the end of the year?

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you. When we look at the B2W business overall, 55% of the sale is credit card and then when we're talking about credit cards we mean installments, with no interest and 35% of the business is paid with a boleto, the local [ph] payment order. And to the end of the year, we have the main events, we're going to have Black Friday, Brands Anniversary and Christmas and we are going to start back [ph].

For each specific event, for specific moment the company starts and analyzes the commercial benefit about what has to be done. Installments is what just one of the options, trade options, you need to have what the customer wants at a price condition, or pricing terms that's interesting for the customer and then lastly you have the payment methods, such as the payment order installment with installment without interest and actually the delivery as well.

So its many commercial options that we analyze every single time and it will be no different, if you consider all the events that are coming.

**Q - Robert Ford** {BIO 1499021 <GO>}

Okay. Thank you.

**Operator**

Our next question is from Gustavo Oliveira from UBS.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

Hi, Fabio, good afternoon. I have a question about 1P. You already mentioned, this a very competitive scenario, a strong competitive scenario there was a good evolution of gross margin in 1P. Are you reviewing your portfolio? Since now you have a profitability of adding less profitable products in 3P or is that not happening? And I'd just like to understand why you have a margin expansion?

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you Gustavo for participating. Actually, it's important to look at our business in the consolidated year. And as we have a differential of the net revenue and gross revenue

year-over-year, we also have to look at the percentage. And when we look at that, we're pretty much flat in Q2 '16 year-over-year.

But the margin expansion that you have seen it in fact happened and we look at the Marketplace business for instance, alone. But when you combine all our businesses, we're actually stable, year-over-year, in gross margin and percentage of gross margin.

What happened actually was an expansion of the EBITDA margin. And in that case, there was an operating leverage as we had none in the first quarter. So we had many adjustments in the Company, which positively reflected on the first quarter.

And now in the second quarter, they also reflected on that. So in fact our gross margin -- no, sorry, the EBITDA margin expanded almost 1 percentage point. Of course, when you analyze that over gross revenue.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

Is there a possibility of improving your own portfolio now and in the future looking for more margin or do you think the margins will remain stable without major changes to the portfolio in 1P?

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you for your question. Today we are experiencing a hybrid model, in which we had two businesses that are very different, but they complement each other. So 1P business more and more, we're looking for -- looking to operate in those categories that makes sense. Categories in which we need volume and depth of inventory to be able to sell and also looking, always for margins.

So -- and that's our strategy for 1P and 3P is a business of pure margin. We add to our assortment bringing more sellers and specialized products. But this mix is the beauty of our business from now on. Remember you that, we are on a learning curve.

So we had for a long time the 1P business and two years ago we launched Marketplace, so we were learning with Marketplace isolatedly but also we've been learning with the Marketplace together with our previous business of 1P. Always looking to increase assortment, increase availability of products to our consumers, bringing profitability to the Company.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

Fabio, if you will allow me one more question. Thank you. I'd like to understand this strategy of the fulfillment profitability that out of the custom customers, some top sellers on the Marketplace. And also the Shipping Menu you said that you're delivering faster than your competitors, right? How much of that has been monetized? And obviously, if we look at the year-over-year growth, we're starting from a very low base, it's good to grow, but I think of the base as still not enough to be meaningful.

So how do you see this evolution? You deliver faster product that customer claims -- pays for that. Are they paying enough to make the whole business profitable? That's what I was trying to understand, what we can expect for the future?

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you, Gustavo for your second question. Those are two different topics. The first one is about the fulfillment. Actually those are related to improving our customer's shopping experience, but the first one above all is to provide to the Marketplace sellers the platform that we built to operate our 1P business. We know that the challenge today is huge in the country.

B2W learned a lot in time on how to face this type of challenge. We structured ourselves for such and within our strategy of boosting the Marketplace and bringing more and more sellers to our business, it's essential to give sellers operations support.

So when they enter our platform and gain scale very quickly and as they gain that scale, they start to need things that they didn't need before.

And we're here to help them and offer this support to the seller. And the logistics and distribution platform is one of these components.

So today we are capable of stacking the sellers inventory and also provide best mile. So the profitability comes from there. When we provide support to the seller and the seller is able to provide better service to the customers, we can sell more and we have a positive effect in the Company's numbers.

The second is the Shipping Menu, all of the investments that we've made allow us to create this differential. No one else in the market has a Shipping Menu, because behind that Shipping Menu, you have to have the capacity of deliver on your premise.

So today, in fact we have six options, we deliver Same Day, Next Day, Two Days, we can deliver in the same market Standard that the market is delivering, which is the economic shipping. We also have the Scheduled shipping and the Store pick up, if the customer prefers that. And since we have a unique level of service, we also can make demands, if we don't deliver any differential compared to the competition makes them possible to try to demand something.

But in fact we do have a Shipping Menu and for us that Shipping Menu first aims to improve the customers' experience and secondly, bring profitability to the Company.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

Thank you, Fabio.

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you, Gustavo.

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## Operator

Our next question Joseph Giordano from JPMorgan.

### Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning, actually, good afternoon. I want to explore -- Fabio, congratulations for your results. I want to explore the Marketplace, which obviously is what is leading the growth. And I would like to know what we could see in terms of margins?

It's still at an expansion phase. So we can't see the effect of that on the margin. Correct me if I'm wrong, is there any effect on the margins? Did the margins drop -- would the margin drop because it didn't have that? In which inning are you in this process?

And like the previous question do you think you can fill still [ph] a place where you have to invest more at what capacity of what you mentioned of overhead you have for that business?

You mentioned VTEX and Rakuten that are not 100% plus then the type of various price can we think in terms of evolution of margins that you already had, gross margins. If we think about margin EBITDA and the adjusted margin EBITDA that would make up for the financials.

Are you already demanding the financials as separate, is this something that we will see more for the next quarter or is it already in this quarter?

### A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you for your participation.

### Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

### A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Actually Marketplace although it did perform 1.4 billion in GMV in the quarter, it's still small if we compare it to our entire business. The second quarter it reached 16% of share of the GMV which is an increase of 9 points compared to this year-over-year, but it still has a long to grow and gain importance. In fact, it's a very good business in terms of profitability.

The trend is spread to contribute greatly to our business. But looking at the mid and long term, it still requires some investment. Structurally speaking the Company did some key investments for the past three years, but when we look at the Marketplace initiatives in terms of systems and platforms to support not just these 4,000 sellers that we have today, but also the thousands of sellers that are still to come, it's different from what we have.

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We're still learning and we're going to need to invest greatly to support the business, that in the long-term tends to become very relevant in our business.

As we said before we wanted to be more than 50% of B2W business, so we have to have the structure for such, selling BRL1 billion is different from selling 2 billion, which is different from selling 5 billion. So there is a learning curve and also an investment curve that is necessary to support this business and bring all those sellers that are interested in operating with us.

The demand for financials separately, the impact is almost zero in the second quarter. Actually this is in a pilot initiative that we're doing with a few sellers that are partners trying to make the business more flexible for both parties. So we're learning and it's still a pilot. Marketplace -- inside Marketplace, there are several initiatives that are being tested and this is one of those that was still in its early stages.

**Q - Joseph Giordano** {BIO 17751061 <GO>}

That's very useful. Now just to understand CapEx. We had signs [ph] for a lower CapEx in terms of revenues, right and then considering that since Marketplace requires more, what do you think about CapEx from now on?

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Well, in relation to CapEx, we maintain what we just mentioned about Marketplace and based on the figures that we have as expectation for 2016 investments and 2017 investments in a five-year horizon it already includes Marketplace, mobile and other initiatives that we believe are important to grow the Company.

**Q - Joseph Giordano** {BIO 17751061 <GO>}

About 500 million, right?

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Which is what I believe is (inaudible). We don't provide guidance on our figures and Andrea [ph] but your ideas aren't completely wrong.

**Q - Joseph Giordano** {BIO 17751061 <GO>}

Okay. Thank you.

**A - Fabio da Silva Abrate** {BIO 17940993 <GO>}

Thank you.

**Operator**

As we are running out of time. The questions not asked -- will be asked by the Company -- answered by the Company later on. We will now conclude the Q&A session. I'd like to give the floor back to Mr. Fabio Abrate for his final remarks.



## A - Fabio da Silva Abrate {BIO 17940993 <GO>}

I would like to thank everyone for participating in our tele-conference and webcast. I'd like to take this opportunity to wish you a Happy Father's Day next Sunday in Brazil and I'd also like to invite you to see our offers for the dearest brands on web Americanas.com, Submarino, Shoptime and Sou Barato.

In case you have any questions our Investor Relations team is at your disposal. Thank you.

## Operator

The B2W conference call is now closed. Thank you for your participation and good afternoon and thank you for using Chorus Call.

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