

Q4 2011 Earnings Call

Company Participants

- Corporate Participant
- François Pierre Bloquiau, Investor Relations Officer

Other Participants

- Analyst
- Gustavo Oliveira
- Lore Serra
- Tobias Stingelin

Presentation

Operator

Good afternoon and thank you for waiting. Welcome to the Conference Call of B2W Companhia Global do Varejo to disclose the Results regarding the Fourth Quarter and Year of 2011.

Today with us are present Mr. François Bloquiau, Investors Relations Director of B2W and Mr. Murilo Correa, Investors Relation Director of Lojas Americanas.

We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the company's presentation.

We will then start the Q&A session and further instructions will be provided. [Operator Instructions]. The replay of this event will be available soon after it ends for the period of one week. It's also important to remind you that today's event has a supported presentation that can be accessed at www.b2winc.com.

Before moving on, we would like to tell you that any statements made during this conference call relative to B2W business outlook, projections and operating and financial goals are based on the company's management beliefs and assumptions and rely on information currently available.

Forward-looking statements are not guarantees of performance. They involve risks and uncertainties because they refer to future events and therefore depend on circumstances that may or may not happen.

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Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of B2W and lead to results that materially differ from those expressed in such forward-looking statements.

We will now turn the call over to speaker that will start the presentation, please Mr. Bloquiau you may go on.

François Pierre Bloquiau

Good afternoon ladies and gentlemen. First I would like to thank you for joining in our conference call to release the results of the fourth quarter and year 2011. B2W a leading company in electronic commerce in Brazil was made from the merger of Americanas.com and Submarino and currently has a portfolio of brands Americanas.com, Submarino, Shoptime, B2W Viagens, Ingresso.com, Submarino Finance, Blockbuster Online, MesaExpress.com and SouBarato.com.br, offering more than 35 categories of products and services through the distribution channels Internet, telesales, catalogs, TV channel and kiosks. Before going on to our presentation, we would like to emphasize that the year of 2011 was very important for --. We made the decision of resume all our processes and practices, in order to structure our company as a company that is customer-oriented. And the period the entire organization mobilized around this process, and this translated into a major learning for the better service for our customers, that we consider that it's crucial to the success of our business.

That the year of 2011 was a period of transition in which many issues were addressed and corrected. However, the results fell far short from our expectations. Conservative measures of delivery to improve our customer services have limited our growth. Together and added to that, a more aggressive price and freight policy, hurt our profitability.

On the other hand we invested in automation opening new distribution centers and making strategic alliances with major carriers throughout the country. We viewed our internal processes, improved our services, expanded our assortment of products and our certain new services on future for our clients.

We are not satisfied with our results. But we believe that the overwhelming priority given to our customers allowed us to have a major change in the future of the company. We also believed that the results have changed in the way that good services to our customers should be a competitive advantage for the company. We are committed and very excited in continuing the transformational processes, investing in the infrastructure that is necessary for B2W to extend it's competitive advantages and capture the many opportunities for growth of electronic commerce.

In 2012, we are more prepared and intend to achieve new levels of efficiency in all our operations to always better serve our customers. Now we will start our presentation with slide three.

On slide three, you'll see the main highlights for the year of 2011. During this period, important results were achieved, which include consolidated net revenues reached

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R\$4.232 billion and the controller revenues was R\$3.8484 billion. Consolidated EBITDA totaled R\$415 million, the company earned in November and May 2011 opened a new distribution center in Recife and signed a contract for the installation of another one in Uberlândia, Minas Gerais. It was obviously as into establish in the end of 2011 its operations in Argentina by means of the brand Submarino Viagens and launched on a certain attractions.

To offer tickets, to entertainment parks, touristic points and others. Submarino Card recorded 37% shares in the sales of Submarino website reaching more than 700,000 cards issues.

On slide four, we show the evolution of net revenues. Consolidated net revenues of 2011 reached R\$4.232 billion against R\$4.0736 billion in 2010 accounting for a growth of 3.9%. The net revenues of the controller reached 3,848 million in 2011 against 3,803,900,000 in 2010.

Now we are going to slide five and we are going to talk about our EBITDA. In 2011, consolidated EBITDA reached 415,400,000. And the parent company reached R\$320,800,000.

On slide six we are going to talk about B2W's new logistic structure. B2W has been constantly investing in optimizing its logistics system and in its distribution chain.

In May 2011, we started to operate a new distribution center located in Recife in the state of Pernambuco. On February 10, 2012, we signed a contract for the installation of another one in the city of Uberlândia, Minas Gerais, during an event with the presence of Governors Antonio Anastasia and the Mayor Odelmo Leão.

The new distribution center will enable us to expedite the products, the delivery of products that were bought in the company's website and better serve customers for Minas Gerais and Central Western North regions. In addition, we are in a final phase of negotiation to open a new distribution center in the city of --. This initiatives are in line with the company's strategy to always seek the better service to customers throughout the country.

On slide seven we will talk about the operation of B2W Viagens travel. In December 2011, we officially launch the pilot operation in Argentina through the brand Submarino Viajes www.SubmarinoViajes.com.ar.

Additionally, we continued our innovation, in B2W travel launch at the end of the year at the website. The attraction fashion were tickets, for our parks, sights seeing sights and other tours are offered.

On slide eight, it looks like about our investment and innovation. We adopted investment plan that is primarily aimed at facilitating growth and improvement of our operations. In

2011, we invested R\$352 million mainly in the areas of operations and logistics and also in technology logistics.

B2W has been steadily investing in optimizing the logistics systems and its distribution chain. Throughout the year we installed new equipment and finalized several works and distribution centers which increase the level of automation and at the same time reduce the delivery time of goods and mistakes made by human error. We also installed new systems to meet new tax and legal requirements.

Another important front of investment is the development of the new customer service system which allows B2W to operate much more efficiently and assertively.

In addition we have established a strategic alliances with major transportation companies in the country which guaranteed a joint commitment to offer the best level of service to our clients and customers. Technology investments in technology have as a primary objective the optimization of back office systems also the layer of sale with all accessories such as for example lease of payment and management information systems.

The company therefore, is able to benefit from productivity gains and prepares to support the future growth of this operation. It is worth mentioning other important gains such as an increased navigation speed on website, agility in stock trading and great advantage in management information systems.

Investments in technology platform in the areas of operations and logistics, television, services and telesales and improving the quality and the efficiency of our operations in order to provide an even better shopping experience to our customers.

Following our path of innovation B2W continues to invest in new features aiming mainly at improving the shopping experience, increasing the conversion rates and enhancing the brand positioning. Throughout the year we implemented more than 80 projects ranging from improvements in the structure of the technological platform new features.

On slide nine, we will talk about highlights concerning our subsidiaries Ingresso.com. B2W following its expansion plan continues to expand its presence in other countries. And we are already present in 284 movie theaters in Mexico, a 115 in Chile and 87 in Argentina. So with a partnership with the Cinemark network. The company continues to search for new countries to replicate this business model.

In Brazil, Ingresso.com maintained a strong growth driven by the sale of tickets to the Blockbuster for rooms with fixed seats and the growing display of 3D movies. Then also the growing presence at major events such as -- showing in Brazil.

Ingresso.com also investment improvement to enhance the customers' comfort and convenience such as the launching of iPhone apps, mobile devices with the Android operating system and also the adoption of the two cash express which makes buying tickets even faster.

B2W travel. Travel operations continued to show high growth rates driven especially by the investment in technology such as the launch of the mobile platform for the sale of tickets and packages.

In addition, we continue to invest in innovation and quality of service always offering the best services in the three brands, submarine travel and americano.com travel and Shoptime travel. Following its rapid innovation B2W travel is now offering through its websites the attraction where tickets for about five centers and other attractions are offered.

In December 2011, we officially launched the operation in Argentina through the site website www.submarineviagens.com.ar. Submarino finance participation in sales of homes and capital and sales has gradually increased, which is 37% of total sales of the submarine.com throughout 2011.

Currently, the submarine finance has a base of more than 700,000 cards issued. Blockbuster online, we are the largest collection of titles and of DVDs and Blu-rays in Brazil. Blockbuster online continues to expand its operations and has begun to offer services in Brasília. Besides, consolidating their presence in the state São Paulo, Rio, Minas Gerais, Paraná, Santa Catarina, and Rio Grande do Sul. Blockbuster began offering a more innovative service for their customers, being the first rental online to rent games. Moving onto slide 10, I'd like to reiterate our outlook and priorities for the coming quarters.

B2W's strategy is to always improve its competitive position in the Brazilian retail markets, through raising the level of service and customer service, sales growth and operational cash flow through continuous improvement in our operation. Capture operational synergies and competitive advantages from the integration of channels Americanas.com, Submarino and Shoptime. The increased turnover of our subsidiaries Ingresso.com, Submarino Finance and B2W Travel.

Constant technological upgrading and innovation to all our business units. Search for greater levels of operations, efficiency and logistics. Training of our associates in order to withstand the challenges facing the growth that lies ahead of the company.

Increase of our active base clients, increase the frequency of purchase by our customers innovation and new Internet business. Thus we close the presentation of results of the fourth quarter and of full year 2011. I appreciate everyone's attention and move now on to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. So that there is time enough for everyone to participate, I'd like to ask you to be brief in your comments. [Operator Instructions]. Excuse me, our first question comes from Mr. -- from --

Q - Analyst

Good morning, all. I have a question about the year 2012. You have emphasized at the beginning that 2011 was a transition year for the company and you also mentioned a series of expectations and priority that you have for the coming quarters.

I would like to have a clear picture of where do you imagine that evolution is going to from this year? Or if you could at least indicate some drivers for example the growth in sales if we could have an opportunity to recover then the sales growth expenses concerning logistics and still the five accounts as a whole. I would like to understand within the core business that you have, where is the improvement coming from in 2012? Thank you.

A - François Pierre Bloquiau

Good afternoon Fabio. Thanks for your question. Our perspective for 2012 is that we are ready to grow, we are in place to grow. We had a transition year in 2011 where we tried to get ready for it. Now we want to grow, we are ready to grow and that's our perspective for 2012 our outlook for 2012. How to grow with a competitive margin, are we going to be competitive in the market.

Yes, that's important to consider and you are right, when you talk about logistics expenses, we have invested significantly, we have worked hard to reach a level of excellent quality in terms of deliveries and last Christmas season was a fruit of that. And now we want to reap the benefits of that both in terms of quality, customer service but also in terms of costs, when we start to operate with this structure in logistics, which is more automated, more efficient, we also have to operate, -- saving in terms of freight as well.

So that's given, something else is that when we started offering better terms of the market in terms of deadline, we're also including the collection of charges for the freight, but margin as a consequence improves. So, we also hope to benefit from that as well in 2012.

Q - Analyst

Okay. Very good. Thank you. Just one follow-up question. We could see an evolution once again a strong evolution in terms of results for the travel and tickets and the finance area. I'd like to know if any of those three businesses are... or any those segment is contributing in the largest scale maybe other? And how can we look at those three business for 2012?

What's the estimate for those three different businesses? What can we expect from those businesses in terms of growth and also contribution to the business, be it for the margin or for the company's revenue in 2012? Thank you.

A - François Pierre Bloquiau

That's three different businesses which are doing well. We had very good results in 2011 and for 2012, we are forecasting an even bigger contribution from those businesses. Submarino Finance, the Submarino Finance is still growing within the sale of Submarino.

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We've had a very interesting results in 2011. And we have expected to continuing this growth path in this year. Of course it's a close operation with submarino.com the retail website. But we are expecting a continuous growth for that operation. We have always had a good performance in that area from the beginning. Submarino travel the same.

As I have said before, we started the operations in Argentina and those operations are expected to grow, not here not only in Brazil, but in other countries as well and now in Argentina. So, we are also expecting good results coming from that.

After I might add, going through a phase, I will expect the operation in Argentina to really take-off. And we also have a good contribution from Ingresso.com we now have included theater presentations, besides movies and new skill concept. So we have a good perspective for that as well.

So, these are operations that are expected to grow continuously in 2012. We are really excited with the subsidiaries. I think it's a very, very valuable asset for the B2W, which brings in significant value for the operation.

Q - Analyst

Thank you, François. Thank you.

Operator

Our next question comes from Santander.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Hello, good morning. I will, I have, well, this new distribution centers that are already opened. Are you going to benefit from tax benefits. Again, we think that your margin will benefit from that. This is the first question.

A - Corporate Participant

Hello, Tobias, thanks for participating.

Well, in fact, the margin depends on several factors. Obviously, we have the idea of benefits that can happen. But we do not intend to pass on the impact that that would have. That will depend progressively on the date of installation of the distribution centers, the volumes type of category. So, its very difficult to specify that rationale.

Q - Tobias Stingelin {BIO 1557190 <GO>}

So, think more futurely in terms of investments. What do you think of CapEx for this year? And when we'll see, I don't know, Amazon has 56,000 employees, dozens of distribution centers. Of course, it's a different business. But how do you see this moving, this business moving on in terms of capital necessities? And how are you going to invest?

A - Corporate Participant

Well, it is what you said. If you think of the benchmarks in Brazil and more importantly abroad, you know that it's a business that needs heavy investments in technology and operation. It is a market that evolves very, very fast. We have challenges we have to cope with challenges and we have to invest more. I cannot disclose the CapEx that we have in mind for this year but what can I tell you is that we are going to continue to invest especially in technology and operations.

These are the two fronts that are essential for e-commerce and that is essential for us as well.

Q - Tobias Stingelin {BIO 1557190 <GO>}

So invest a lot does it mean more or less than last year can you specify that?

A - François Pierre Bloquiau

We still cannot disclose this piece of information but it is going to be investments inline with our strategy and it's going to be an important investment.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Okay. Then -- perhaps the question that Fabio asked, do you have any internal data of improvement that can tell us that things are improving, because we from the outside as consumers we go to the website and we can see something better on the website. But is that wrong data that you can give us saying that wow, we turn the page and now we are going to go back to growth.

A - François Pierre Bloquiau

Well, we have several internal indicators that have been followed very carefully by the company indicator that show the operation but I cannot disclose them. What I can tell you is that we have the suite of improvement Christmas was very good. But if you think of external indicators that are available like the website even those websites that have customer complains and they rate the company according to amount of customer complains and everything. Or if you take a look at statistics in consumer protection agencies.

We are going to see that our brands evolved a lot in the past year. And even for a month so in recent months, these are concrete data available to the public to analysts and show an evolution that is very good not as much as we want, we want more. But these are concrete data that are available to everyone.

Q - Tobias Stingelin {BIO 1557190 <GO>}

So you turn the page everything that you had in terms of problems in 2010 that you spent a lot, you were super careful in the last quarter to solve problems, you have solved them. You are focusing on growth and you are now longer going to be careful. You turned the page, can I say that?

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A - François Pierre Bloquiau

So yes we did turn the page. Indeed our operation is very well built and optimized. But it's always a very good to be cautious. We have an operation, we want to grow. But we are going to grow with them because we do not want to grow to what we went through last year. We want to monitor our internal indicators, external indicators and always be very cautious with the efficiency of our actions to ensure deliveries because it's not just, I turned the page so I don't have to care about that any longer.

We have to be very careful because this is going to be a very important differential and competitive edge being able to deliver the best quality of services to customers.

So the major problem that we went through is over. We turned the page. But the concern that we have towards our customers is permanent.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Okay, a final question then. So why did you cancel the treasury bonds?

A - François Pierre Bloquiau

Sorry.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Why did you cancel the treasury shares that 3 million shares that you have in treasury why did you cancel them any reason?

A - François Pierre Bloquiau

Well this is a legal decision because we don't have legal reserved we can not have the shares in treasury any longer.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Well, thank you then. Thank you very much.

Operator

[Operator Instructions]. Excuse me, our next question comes from Mr. -- from --.

Q - Analyst

Good afternoon. I would like to ask a question basically over a broad question I couldn't hear at the beginning of the call. I was bit late but in any event if you could talk a little bit about... I think I heard your answer on competitiveness.

What can we expect in terms of adaptation of systems? What kind of time line could you work on for the second half, so that we could expect the market share to converge?

And also some kind of indicator in terms of the level of complains of quality issues -- that you could share with us, so that we could feel more comfortable with the results? Thank you.

A - François Pierre Bloquiau

Good afternoon Andrea. Thanks for your question. In terms of complains, we think that the recent evolution was really good. And we expect to continue growing positively concerning that indicator. And that's an ongoing process, but we are way ahead in the process and we plan to keep on doing it. In terms of technology we are still adding new features to the website, continuous innovation. And we will have, we will feel the results of that, in terms of conversion rates at every quarter we could say. We have been seeing nice evolutions at every quarter and we expect it to continue in 2012.

Our three brands are evolving satisfactorily. The investments we made in technology and new features, in operation, in efficiency, those investments will continue in 2012, and the objective is always to grow.

So now it's something we would like to grow in 2012. I think we are ready to grow. And what we did in 2011 is a work of preparing the way for 2012.

Q - Analyst

And about the needing for working capital. are you still using something about 200 million per quarter. At what point do you think you would run the risk of having to bring in more capital?

A - Corporate Participant

Well, today the newly increase in capital is not part of our plan to be honest. We do not work with this out logic. It's not part of our plan. So, right now, we are working with this perspective. And this is our plan for the whole year of 2012, yes.

When we increase the capital last year, our plan was a three year plan and we are following that plan. And that plan is based on a capital increase which was made last year, okay.

Q - Analyst

And even in the situation of increase in competitiveness, do you see a potential drop in prices that you may need to do or create new promotion, you don't see that happening.

Going on in discussion and on this battle, if you will, to improve quality, improve service, improve delivery times. And hence improved competitiveness is not necessarily begin to price it down or not necessarily bringing in more working capital. Can I read it that way as a strategy or can that be changed throughout the coming months?

A - Corporate Participant

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We want to grow and we want to be competitive. And we have to work within margins that the market is using today. And we will have to necessarily adapt our model in other areas, expenses and revenues. So, in terms of working capital if you look at the fourth quarter, our working capital improved especially in terms of inventory... and in clients, we had better commercial practices, which allowed us to improve our working capital. And we intend to continued to improve that efficiency of our working capital.

That growth adapted if you will to the margins, practiced by the market. We've also come as you said from a distinguishing driver in terms of new feature, new quality and new level of quality for the customers and the new delivery times.

Q - Analyst

No, I understand, I understand but that improves improvement in working capital also in the way sacrifices other top-line. So when can we expect this to convert that is to have a stability in terms of our margin, in terms of working capital and that would be the ideal point for conversion, so, we could adjust revenues. When do you see that happening, 2012 or do you expect it to unfold alarm in the next two or three years?

A - François Pierre Bloquiau

That stability is very dynamic it's a dynamic stability scenario. We are working consistently on achieving that stability. We are working hard any efficiency and improving the working capital. And we think that throughout 2012 we should achieve an interesting balance between margin, cost and revenue.

Q - Analyst

Thank you. Thank you.

Operator

Excuse me. Our next question comes from Ms. Serra from Morgan Stanley.

Q - Lore Serra {BIO 1506730 <GO>}

Yes, thanks for taking the question. And I came on the call bit late so maybe you have addressed this but I would like to understand how you think about the gross margin pressure you saw in the second half of last year particularly in the parent company it was very strong. And is that you... we're configuring your pricing to be aligned with the market and should we see that as permanent kind of lower gross margins?

And then along those lines at the lower gross margin levels how do you see your competitiveness vis-à-vis the market because what's hard to see from the data is this despite that strong gross margin contraction we are not seeing revenue line growing. So would you expect to see these lower gross margins but into this year but than the resumption of revenue growth as you got the systems in better place. Are you now very competitive versus the sector, how should we think about what these gross margins mean in terms of your business going forward? Thank you.

A - Corporate Participant

Very good morning. Thank you for your question.

Those margins are really market margins. We see the market of e-commerce in Brazil as a growing market, in terms of competitiveness and we expect those margins to remain at those levels and we have to work with those margins. As you know, this market has new members coming in the last few years. So those margins are reflect today's reality of the market.

And how do we plan to grow? We plan to grow being more structured having a integrated system with a more efficient operation with better service quality, distinguishing services offered to the client and strong brand positioning. That will lead us back to growth with stability. At the same time dealing with those markets, those markets as I said are, what the market offers us.

Q - Lore Serra {BIO 1506730 <GO>}

Thank you.

Operator

Excuse me, our next question comes from Mr. Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, all. My question is about the working capital. Again, concerning the other subsidiaries. I know its difficult, it might be difficult for you to answer, I know and it's also difficult to ask, because we don't have the numbers from the subsidiaries. But as they represent 30% of the EBITDA and we can see that the net debt and despite the net debt drop, the consolidated net debt increased, which was a different scenario from last year, where the net debt dropped inline with the net debt of the core business.

I'd like to understand if there is some seasonal effect in place maybe some of this, there is just more capital intensive or if the business of the subsidiaries are requiring more working capital?

A - Corporate Participant

Well, Gustavo. Good afternoon. Thanks for the question. Well, it's the following as subsidiaries we do not feel a need for a working capital, too much. Some subsidiaries are phase of investments in other operations outside the country. So, we do have a specific impact, the fact that we are going to Argentina and Chile in the case of Ingresso we want a major aberration Argentina's Submarino Viajes as well. So all that has an impact but it is much more connected to new investments, new operations than the day-to-day of the Brazilian operations.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. And do you intend to start to disclose your results a bit more at least of the most important subsidiaries.

A - François Pierre Bloquiau

Well for now the line of -- that we adopted as our core business is e-commerce. The subsidiaries are important but we want to stay along the line perhaps in the future. This is going to change but for now this is what we have in mind.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you very much.

Operator

Well, we are now closing the Q&A session, we would like to turn the call over to Mr. Bloquiau for his final remarks.

A - François Pierre Bloquiau

Well I thank you very much for attending our webcast and conference call. And I would like to use the opportunity to invite you to visit to the website of Americanas.com, Submarino and Shoptime that have fantastic offers in more than 35 products and categories.

There you can see our offers and shop. And also take a look at our website of travels, tickets, rental movies and restaurant visits all that with a convenience and safety that only B2W can offer.

In addition, our Investor Relations team is available to answer any questions that you may have. Thank you very much and good afternoon.

Operator

B2W Companhia Global do Varejo conference call is now closed. Thank you for your participation. Have a nice day.

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