FINAL

Bloomberg Transcript

Q1 2013 Earnings Call

Company Participants

- Frederico Trajano Inacio Rodrigues, Chief Sales and Marketing Officer, Member of the Executive Board
- Luiza Helena Trajano Inacio Rodrigues, President, Vice Chairman of the Board, Member of the Executive Board
- Marcelo Jose Ferreira e Silva, Chief Executive Officer, Member of the Executive Board
- Roberto Bellissimo Rodrigues, Chief Financial Officer and Investor Relations Officer and Member of the Executive Board

Other Participants

- Graziela Paiva, Analyst
- Irma Sgarz, Analyst
- Joao Mamede, Analyst
- Ronaldo Kasinsky, Analyst
- Victor Paschoal, Analyst

Presentation

Operator

Good morning and thank you for standing by. Welcome to Magazine Luiza's First Quarter of 2013 Earnings Conference Call. I would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. Afterwards, there will be a Q&A session, when further instructions will be given. (Operator Instructions) There will be a replay facility for this call for one week.

Before proceeding, let me mention that any forward-looking statements that can be made during this conference call related to Magazine Luiza's operating and financial goals are assumptions and beliefs of the Company's management as well as on information currently available. Forward-looking statements are no assurance of performance. They involve risks, uncertainties and assumptions since they relate to future events and therefore (Technical Difficulty) not occur (Technical Difficulty)may affect the future results of Magazine Luiza and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Marcelo Silva, CEO, to begin the conference. You may proceed, sir.

Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Good morning, everyone. Thank you for joining us at today's call at Magazine Luiza related to the first quarter of 2013. I have with me, Roberto Bellissimo; Frederico Trajano; Fabricio Garcia and Isabel Bonfim, our Director of Administration and Control; Marcelo de Almeida, Director of LuizaCred and also Luiza Elena Trajano, our President.

I would like to start with a highlight, addressing the highlights of the first quarter of 2013. Starting with the growth in gross revenue which was 7% growth, vis-a-vis the first quarter of 2012. Same-store sales grew by 5.2%, highlighting e-commerce growing 21% and we should also consider the comparative base, with the quarter of the previous year at 15.9%, therefore, a very strong growth last year.

This quarter, we opened two additional stores and closed 14 branches, three from Bau, which were overlapping in terms of geography and we forecasted that we would do that as soon as we concluded the year of 2012.

It is very important to mention that based on the 7% growth, which is what we are working on, in terms of sustainability, in order to have positive results over the next quarters, we increased from 0 percentage points in our gross margin vis-a-vis the previous year, reaching 20.8% of net revenues. It certainly is coming from our focus to improve the gross margin in the Northeast.

We still have a gap vis-a-vis other regions where we are and we manage to preserve the margins, our gross margin in other regions where we are. We still had 0.8 percentage point reduction in operating expenses.

This stems from our cost and expense reduction program which was started last year, we also improved our productivity of the store, and this quarter, obviously, we had no extraordinary expenses of integration as we had last year. I think you can only call that.

Please note, as well, LuizaCred quarter, which was a very solid growth in our revenues, 9.8, improving 6 percentage point of the gross margin of LuizaCred and consequently EBITDA went up to 8.5, net margin at LuizaCred to 4.5. And we had a reversal of 16 million losses in the first quarter of 2012 vis-a-vis 16 million profits in the first quarter of 2013.

All these drivers and factors made us move from a loss, a significant loss in the first quarter incurring extraordinary expenses to profits, incipient though, but it still gave us a projection for a growing result over future quarters in 2013, assuring us profit very high in 2013 above what we had in 2012.

To get into more details about the operating and financial indicators, I'd like to invite Roberto Belissimo for the presentation.

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Good morning, everyone. Starting now on slide number five, we show our growth in number of stores. We closed last year with 743 stores, March with 731 and we closed 14 stores that were overlapping, and open two additional stores, new stores this quarter, within our plan to open from 20 to 25 stores by year end.

And we closed these stores because now we're focused on improving the company's profitability as well. On the next chart we show our investment plan. 27 million were invested this quarter. We optimized investments and we invested less compared to the first quarter of last year, when we had invested 43 million. Please note that at that time, we were investing to expand our DC in Louveira, investing heavily in logistics, so these -- remodeling new stores, technology and logistics as well.

At the bottom to the left, we have same-store sales growth, in the first quarter of last year we grew 12.6 in physical stores, 15.9 total same-stores growth and 25% total new stores. So, growth that first quarter was above the market growth, 2.9 with brick and mortar, 5.2 including e-commerce, and 6.9 including new stores, also gaining a market share.

Please note that this is the poorest quarter in retail as a whole. And from now on, future quarters tend to be more favorable in terms of seasonality and also the calendar effect. The next chart shows our average age of stores, we still have 37% of the stores with less than three years, within our maturation process, as we planned before.

On the next slide, now on slide six, we break down a little bit of our LuizaCred performance, which was a great highlight, in terms of results this quarter. In terms of sales mix, third-party credit cards grew from 30% to 36% stake. Direct credit to consumer grew from 14% to 18%, and this has really helped the results for LuizaCred, expanding our growth margin, EBITDA margin at LuizaCred, and also LuizaCard down from 24% down to 16%.

We continue to be very conservative in terms of credit granting, however, on the next chart we can show the total billing at LuizaCard, growing virtually 10%, from 1.9 billion to 2.1 billion, highlighting our growth in direct credit to consumer this quarter.

On the next slide, we show our growth in credit card base, virtually stable in the first quarter. I would like to remind you that this base is becoming increasingly more mature and more profitable as well from the moment we have new cards and they become more mature and more profitable.

And the portfolio grew 7% vis-a-vis the first quarter of last year, reaching R$3.6 billion. And here we also highlight the growth in our direct credit to consumer, portfolio grow at 80% this quarter.

On the next slide we show the performance of LuizaCred portfolio. It was greatly improved vis-a-vis one year ago, improving 4 percentage points over 90 days overdue, went down from 12.7 down to 8.7. That was a very good performance, as you can see.

A slight increase, vis-a-vis December, stemming from seasonality, the normal seasonality of our segment. As we continue having a very robust provision level, the coverage index or the balance of provisions over past due portfolio at a very high level of 147% this quarter.

Now, moving to slide 10. Here we show our gross revenue on a consolidated basis. Just to clarify, we changed our booking process for our results. We are using a new CPC in line with IFRS and now we are consolidating 100% Magazine Luiza and retail which was already fully integrated at the controlling company. Luizacred and Luizaseg which consolidated as a proportion now are being posted as equity income affecting revenue, expenses, assets and liabilities. Anyway, in the release we do the disclosure both of the current format and also the format that we used until last year for more comparative purposes.

Gross revenue in the first quarter was 2.1 [ph] billion, growing 7%. Internet sales amounted to more than R$300 million this quarter, growing 21% and consolidated net revenue 1.8 billion, growing 6%, again, over a very high comparative base, compared to the same quarter of last year.

On the next slide we show our gross income performance and also the gross margin. In the first quarter, our gross margin was 28.2, growing 0.4 percentage points vis-a-vis last year, stemming mainly from improved margins from the Northeast stores. This margin was also above the fourth quarter of last year, despite the fantastic sale that we performed in January.

And please note that in the previous format, when we would consolidate LuizaCred as well, expansion was 1 percentage point vis-a-vis last year, considering the increased gross margin of Luizacred as well.

On the next slide, on page 12, we show our operating expense performance. Total operating expenses were virtually the same amount as last year, growing very little. We had a percentage reduction of 0.8 percentage point over our net revenue, stemming from all the efforts already made, in terms of lowering expenses. And please note we have further opportunities for the second half of the year and also by year-end to implement projects that are underway to lower expenses and also about store maturation and synergies of our integration as well.

In terms of selling expenses and SG&A, there was a slight reduction and we didn't have any reduction or non-recovering expenses. Therefore, other operating expenses are now used in other operating revenues.

On the next slide, we show the performance of our EBITDA. Here we include equity method as well. There was increase in gross margin, a dilution of operating expenses, and also a reversal -- substantial reversal in our equity income results. And as a result, our EBITDA margin grew from 1.4 or 23 million to 3.6 in the first quarter of this year or 63 million. And this shows the beginning of our gradual improvement in the profitability expected for 2013. At the bottom we show last year, 56 million, 3.4 our recurring margin, and this year 3.6, non-recurring expenses.

Now, on page 14, we show a drop in financial expenses, also contributed to improve our final results. A reduction in financial expenses stems from CDI reduction, and also a significant improvement in the working capital this quarter, compared to the first quarter of last year, both in terms of average purchase, turnover of inventory. So these factors, altogether, have really helped to lower our need for capital, working capital, and also to lower our net debt.

By year-end, our working capital variation is expected to be normal. In the first quarter it is slightly positive and by year-end we expect to have it negative again. On the next slide, now on page 15, we show our net income performance. In the first quarter of last year, we had a loss of 40.7 million and then 21.9 income in the second quarter, 2.4 million in the third quarter, 9.7 in the fourth quarter, and virtually 1 million in the first quarter of this year.

On the next slide, on page 17, I'll give the floor back to Marcelo Silva.

Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Before we conclude and give the floor to our president, I would like to address our expectations for future quarters. The high one-digit growth for 2013 is assured, it has been growing. April was much better, despite Easter last year vis-a-vis this year. Mother's Day was also slightly above our expectation, really positive. We expect to open between 20 to 25 new stores and we will keep on growing consistently, both in terms of sales and also number of stores. So 20 to 25 new stores this year. And our projections confirm that our growth, same-store sales will have a high digit in addition to e-commerce growth, which is projected between 20% to 30%.

On top of that, in addition to sales growth and high digits, we expect to maintain our gross margin. We will be significantly decreasing our gaps between Northeast stores and stores in other regions. We are in the post integration phase in the Northeast and today we have a full vision. The stores have the same visibility of other Magazine Luiza stores.

We are still in the pilot phase, testing, but we expect to have in the second half of the year our pricing project, in order to improve intelligence and pricing by channel, by region, by product family and give more autonomy for the sale department in our stores, which is something really important for those who are present in 16 states in the country.

We also strongly continue to engage our cost and expense reduction store, improving our stores, and our price policies are more stringent, and we are having this in our zero-based budget. As most significant gains are expected to happen in the future, more and more than they happened in the first quarter, including gains of synergy, because now we have already integrated Maya and Bau chains. Our commitments, like we said last year and now, closing the balance sheet in 2012, is to have better productivity and profitability indicators.

We are focused to improve quality of service and customer satisfaction. We still have a maturation process for one-third of our stores. As time goes by, these stores will be equivalent to the profitability of more mature stores in our chain. And now, with price management, improved stores in the Northeast, and in terms of profitability, except for seasonality in the first quarter which is only natural, affecting the whole retail as a whole, with zero-based budget, we also have tax benefits in our payroll, starting in April, reduction in electricity tariff, and we are improving productivity in all of our Company's stores, all DCs.

LuizaCred continues to have an expense rationalization program that is still very strong. We started a multi-channel delivery program, so all these synergies will be much higher. And as a result, we can say that we expect to deliver results in 2013 absolutely different and above what we had in 2012.

Before we move to the Q&A session, I would like to give the floor to our president Luiza Helena Trajano.

Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Good morning, everyone. I'm delighted to be here with you, I really wanted to be here quite a long time. I just wanted to show that I really -- I'm very positive about the Company this year. You all know I'm really transparent, whatever I say is already in practice. So, we knew things would happen this way and we never will have -- well, we bought Bau, and when we had the merger of other stores, we had two very challenging years, but we also follow very closely, and in the South we had a drought, a very strong drought, and now we have another drought in the Northeast, but I'm very confident on what we did.

Any competitor with a lot of money takes many, many years to have 140 stores in the Northeast, in the main capital cities, and it's really hard, it's a business of

opportunities, and Bau was something we really wanted to have. I particularly wanted to deliver 100 virtual stores. I believe the chain from brick and mortar to 5 and 10 years, the virtual store will be ready to have a very strategic breakthrough. Brick and mortar will be here, but the format is something that we want to be with; and virtual stores are something that -- and by the way we expect to have the next store in Heliopolis, and you will have time to get to know this. It is closer, and you will see what a virtual store is all about, you have to see with your own eyes.

So, the 13 stores that we closed with Bau were not in the valuation, because when we bought them, we took another year to see if it was really worth it. So, we closed them and we have even more to close, because the valuation was less than the 130 -- or 113 we acquired. It was about 130 stores we would have, 35 that we have already fully converted in Parana into virtual stores. And capital stores that we manage to increase and have a furniture store, because it would take is too long to have it the capital city.

So, we were very confident and now we have no excuse about the merger, but still we we'll keep on growing, and are really excited this weekend, we had the right product at the right time, the right campaign. We've heavily invested in what we felt a 7,500 pan sets last weekend and home appliances, so we want to improve our margin. We will be improving our margin, but not by buying new chains, because that interferes, but I'm not saying we're not growing, I'm not saying we're not going to increase our sales, but chains sometimes impairs results in the first years. It is good on the one hand but not on the other, so now we're focused on profitability. Profitability will happen and that's why we are focusing on stores growth, reduction of expenses and opportunities.

I would also like to say that tomorrow I'm going to Brasilia, President Dilma who have been working in a group with technicians, and also with the President, and several ministers. President Dilma will approve this week or early next week something really good, My Home My Life Program, so people can buy through Caxias with Magazine Luiza. We were the first with furniture pass and we helped to buy refrigerators, TV sets, washing machines, computers, beds and also living room sets in 60 payments, 5% interest. We have no commitment and we really worked to increase from one door fridge, people like frost-free refrigerators, so people will have up to R$5000 according to their credit to spend in our stores.

Those who are already in MCMV will also be entitled to it. So Caxias will really facilitate loan, and we have already been saying in the media, but we are going to Brasilia because we hope to make this process work and we are also very strongly engaged in tax distribution. We are sending back everything we paid for

in retail as of July. So, we've been really working hard to help the government to create something consistent, as My Home My Life, and another thing that probably you saw has to do with insurance. Many people sell embedded insurance, I think you heard that. The first time people said if they would be dismissed or not, and they promised 1 billion insurance. Some people have 2% or 3% only in insurance. I love to sell insurance, but we cannot embed it, that will be a problem for others. So, we are studying with own sub-bodies how we can sell insurance properly in order not to be insurance to an end.

So we are firmly engaged with the government, more than 2 million products within two or three years, and financing in 60 payments, and we won't have problems as default because we have cash through our card and Magazine Luiza has to make this card with Caixa. So we have a lot of novelties, many things happening and we really excited this weekend. Quite a long time we had been expecting to do something, and we were really surprised, and I was really happy this Monday. So, it is great when Mother's Day is good.

The market was really warmed up and it was really amazing. Well, I'll be here for the Q&A session. Thank you very much. And we might not have bought a chain, but no, no we have to buy the chain, otherwise we would not be in the Northeast, which is an amazing market. We have been through serious droughts, but this is really a boom and all investments which will be there. I do not regret having bought Bau's 35 virtual stores in Parana, in the interior, in other states and they greatly improved our stake in Sao Paulo, but that had a price to pay and we paid that price and now it is over, everything is over.

So it was a very well performance by Marcelo and his team in these two chains, they were firmly engaged last year, I congratulate them, it was a beautiful work. And adapting a system, well, this is really challenging, and they did it very smoothly, without interfering with our database. So we are really working in order to have retail at a fair price in Brazil.

Thank you very much. I will be here to take your questions.

Questions And Answers

Operator

We're starting now the Q&A session for investors and analysts only. Questions from the web will be answered later through e-mail messages. Feel free to contact us for any further problems. (Operator Instructions) from the line of Joao Mamede from BTG Pacutal would like to ask a question.

Q - Joao Mamede {BIO 15265292 <GO>}

Good morning, everyone. I have two questions. The first question has to do with direct credit to the consumer. Roberto mentioned in the presentation that this was a project that became a heavy-weight this quarter. And I'd like to know what the Company imagines to be the stake of this project in sales later on, I think there are more expenses to gain, right?

So my second question has to do with gross margin. Marcelo mentioned in the presentation that evolution was very good this quarter, and if we take into account that e-commerce grew beyond brick and mortar, and e-commerce generally has a lower margin compared to brick and mortar, but this gain was even more significant, but what about the future, what are further gains?

I think Marcelo already made some comments saying that are future opportunities, but I wonder if you could quantify what you envisage for gross margin performance down the road and also with e-commerce growing more you also expect to grow from 20 to 30, more than one digit compared to retail. So, can you make comments on these dynamics? It would be excellent. Thank you very much.

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Can I answer about credit card and maybe Marcelo can address gross margin later. So what happens, Brazil gives credit cards to everybody. Credit card started, but people didn't use credit cards properly, so financial companies decided to have a credit crunch, which was natural. In a partner with retail, the alternative by retail was to come back to payment card because people is controlled and clients can buy more.

I expect to transform this payment card into a cheaper credit card, because credit card is easier for us to handle. So I have been following default at LuizaCred on a weekly basis. We follow the whole operation and default and delinquency is under control. Our payment card is also under control, and remaining card, like Roberto mentioned are those that are really profitable to the Company. So, there was a strategic error by all banks and financial institutions. The premium should be on card volume, but not on what we bought by cards. The cost of the Company was of cards that were not used. So, I think now we are being addressing very carefully, with experienced people, to think about the direction for CDC in the future.

Based on my experience, I really believe direct credit to consumer will move into a more simple and less expensive and faster card. That answers my first part of the question.

Now, I would also like to mention our satisfaction -- it is the only dot-com that is profitable, and it has been growing profitably. So, if you get into our website, it is a really cool website. People buying wedding presents for instance and it is really agile to buy, really friendly to buy. And I buy myself, because we all pay everything on the right spot, even Luiza's pays and buys.

Roberto is going to answer the second part of the question, and I hope I have answered your first part of the question. The CDC was a way out until we could get cards back on track and put delinquency under control.

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Thank you, Luiza. Good morning, Joao. Just adding something as well, CDC stake grew a lot since the beginning of last year, and it has proved to be close to 20% in recent quarters, and expected to be similar in future quarters.

As to the gross margin, you are right, the gross margin of e-commerce is slightly lower. So, when we say that we maintain gross margin in South and Southeast and it was higher in the Northeast, we managed to do that, even though e-commerce was growing 21%, improving the state of on-line sales, from 12% to 13%, to 14% and almost 15% of our sales. So that was the growth or a good performance in the gross margin for other regions, net of e-commerce.

A - Frederico Trajano Inacio Rodrigues {BIO 17269235 <GO>}

This is Frederico speaking. Good afternoon. Can you hear me? Just to add something, we have already mentioned in previous calls, but it is good to highlight that e-commerce gross margins is lower compared to brick and mortar, however, it is more than inferior in this proportion of brick and mortar. So, the impact of e-commerce on EBITDA growth is very positive.

Actually, although we grew more in e-commerce than brick and mortar in the first quarter, the Northeast factor was really representative and significant, and the consolidated gross margin went up, but e-commerce did have a positive impact in EBITDA, just as it happened in previous quarters.

Q - Joao Mamede {BIO 15265292 <GO>}

It's clear. Thank you.

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Thanks you, Joao.

Operator

Irma Sgarz from Goldman Sachs would like to ask a question.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. I'd like to have a better understanding of your vision, vis-a-vis sales performance in brick and mortar stores, which was a little bit more modest early this year. As you said in the release, you still are confident that this is expected to come back to higher levels in future quarters. I'd like to understand about the scenario or the macroeconomic scenario, and obviously with potential measures that might even help sales, but except for that, anything that you would highlight that you can already see in terms of Mother's Day campaigning, for instance, or something that supports your trust and confidence for brick and mortar stores to come back to higher levels? Thank you.

A - Frederico Trajano Inacio Rodrigues {BIO 17269235 <GO>}

Good afternoon. This is Frederico again. Let me address sales and give you more granularity. As Marcelo said, we should always bear in mind that the first quarter of last year we had virtually 0.21 -- the comparative base was very strong. It is the strongest for the whole year, in the first quarter of last year, I believe our performance was really extraordinary, so for upcoming quarters our comparative base will be softer compared to the first quarter of 2012, because

the economy last year had a slowdown, and the first quarter was still strong.

So, this is the main driver in this reading of results for the first quarter. And another important factor, Irma, is that we have three days less this quarter, I remember, last year Easter was in April and this year Easter was in March, so the three less business days have a 3 percentage points in fact on same-store sales. Just to give a comparison with retail. It's important to bear that in mind. We already see April with figures very close to our guidance.

One, a high single-digit for same-store sales, and the same for Mothers' Day considering the positive weekend we had. We are excited, also being very bullish, vis-a-vis e-commerce growth it is still solid with us, and maintaining our profitability.

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Irma, this is Luiza speaking. I would like to say that we are going to have the Confederations Cup and there we will sell a lot of TVs. We are selling smartphone four or five times more than we usually do because the government gave us a lot of incentives in April, and as of the day 20, we are booming in broadband, for instance, for R$10, and this is going to heat the mobile phone market.

Smartphones will be working with the government for many years, and since early March I told people to buy smartphones. Our sales in the ten days in April were three or four times higher, in terms of sale. And then we'll have the World Cup, and then the Olympics, so Brazil has six years of consumption, amazing consumption, when you have a strong gain, people change the fridge, because they want to entertain friends at home, and we are also working a lot with communication.

On top of all the products that I said, more than 2 million products that will be launched -- as of next week, encouraging people who are in MCMV, who had no payment loans, 60% of C bracket households do not have credit, but that's only because they have no access to credit. So that is why we now, with Caixa, can work for these projects to be launched.

60% of households have no problem on credit, however, they do not have access to credit through our financial institutions, and the government will allow them to have a suggest amount in Brazil still needs 23 million for MCMV to have satisfactory level of cash, a sustainable level, socially speaking.

Q - Irma Sgarz {BIO 15190838 <GO>}

Perfect, thank you. Certainly these are important drivers. And the second question, if I may, related to e-commerce. Frederico, maybe you could help me have a better understanding. As far as I understand, there is slightly change in logistics to generate 100% through DC Louveira, and now you are already testing a pilot study of a center in the South, if I'm not mistaken. And now you are also working to have it expanded for all distribution centers. Could you elaborate on that?

What are the expectations in that regard, or EBITDA margins, more specifically, for e-commerce? And also the impact on the company as a whole?

A - Frederico Trajano Inacio Rodrigues {BIO 17269235 <GO>}

Certainly. It is not only a pilot study, we are already working on the project, so since early last year, just one DC center early last year, just Louveira DC would build and cover sales for the whole country. We are the only company in Brazilian retail that is fully integrated in channels, the majority of our competitors have e-commerce operations fully separate, with no synergy, these are different DCs, and logistics are fully separated.

But our operation give us the chance to work integrated with DCs that can deliver both through e-commerce and brick and mortars. So what we are already doing in our roll out, we already have Caxias do Sul DC and another in Minas Gerais with e-commerce. And for these regions, delivery term goes down 60% and we also have a drop in delivery term, so we have a very positive impact both in sales increase, because if I'm more competitive and I deliver faster than our competitors, who do not have that benefit in that region and we also improve our logistics cost.

The main e-commerce cost is freight expenses, it is that -- in brick and mortar it is the payroll. So if you manage to lower freight expenses, you can greatly improve the EBITDA commerce in EBITDA, which is already positive and above the market average, thanks to our policy of multi-channels. So, we already have two DCs in addition to Louveira, and until the middle of the year we want to have another DC in the Northeast, with a competitive edge, very big to the Northeast.

Today, just one of our customers or competitors has a DC in the Northeast. The difference in our rollout, we are going to have eight distribution centers on the west, and our competitors will have to heavily invest in a new CD or significant CapEx to do the same. But in our case, all we have to do is adapt our system with very low investment to work on an existing DC and operate on e-commerce. So we are very bullish for e-commerce, both in terms of higher sales, and also freight cost reduction, therefore, improving our EBITDA in this operation without massive CapEx investment, which we know is important for the capital investment.

Q - Irma Sgarz {BIO 15190838 <GO>}

Perfect. Now, just as a follow-up. What about these reductions in logistics cost? Do you intend to transfer them, or are you already transferring that to customers? Maybe that could also help to drive sales. Are we going to keep on doing that? At the same time, obviously, this also brings operating leverage, so, how would that happen in the earnings results?

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Absolutely. Well, we are not transferring that to our customers yet. We will only do that once our operations are more stable. But for the P&L, what we can see is a reduction in SG&A, particularly in the account that represents SG&A, which is freight account, which is one of the most important in our expense growth, and it can still go down in upcoming quarters, from the moment the volume of the new markets are materialized.

Q - Irma Sgarz {BIO 15190838 <GO>}

Perfect, thank you.

Operator

Ronaldo Kasinsky from Santander has a question.

Q - Ronaldo Kasinsky {BIO 15985600 <GO>}

My question has to do with the gross margin that we said before. I wonder if you could talk about the performance in the mix and the portfolio, any direct impact on gross margins? And about My Life My Home Program, will that be a direct impact on mix change? Is it already considered in your guidance for brick and mortar stores? Thank you.

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

It was not on our radar, we didn't know we would have My Life My Home. It takes some time to happen, but it was not in our guidance. So, tomorrow we have a meeting in Brasilia and you check the final announcement. We struggled in order to have a consistent and fair project. President Dilma is in a hurry to set that, and once Marcelo knows what happened, he will add it all to these other aspects.

So, maybe in the second call, we can say how much it represents to us, so that's something really cool, because there is no default. You have it right on the spot, and it's really cool because it adds customers that would not buy from us otherwise, those who currently have no credit, like I said before. It is a new consumer that will get into this project of essential or basic products.

A - Frederico Trajano Inacio Rodrigues {BIO 17269235 <GO>}

So, we cannot measure yet, but the effect will be like Luiza said, we have to wait until the project is launched, and then see what could happen, or the effect.

Q - Ronaldo Kasinsky {BIO 15985600 <GO>}

Okay.

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Robert, do you have something to say?

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Ronaldo, in the first quarter we didn't have major changes in product mix. The increase in margin may be explained by channels in the regions, like we said before. As to the future of the program, once we have more clarity on the mix, we can communicate the effect on margin, but that's what we already do products, home appliances, TV.

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

About the mix, can I just say something? This is Luiza again. Ronaldo, this mix by gifts and toys, electric home appliances, the rates are going up dramatically because these people already have a fridge on the stool, so now they are buying a multi-processor, new pan, and we launched a new multi processor this weekend, and it was a great hit.

So we will always sell gifts, presents and toys, portable equipment and now portable equipments for women's hair, for instance, these are -- they have a very high demand, they like to buy in the brick and mortar store, so that they can take it home right away. So we are also -- I'm also helping our managers in the gift line, because I'm very confident that colored pan sets are really selling high, by the way, we sold about 8,000 sets last weekend. So there is no delivery, no technical service and the margin is greater compared to our products. So, once that growth in Magazine Luiza is ready for that, that is a strong market trend, considering nobody expected to sell this high number of pans.

It was an unknown market, so this mix will really help to work on our margin and I believe this so much that I'm working with Fabricio, so we can sell gifts for the team as well.

Q - Ronaldo Kasinsky {BIO 15985600 <GO>}

Great. Thank you.

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

We firmly believe this.

Q - Ronaldo Kasinsky {BIO 15985600 <GO>}

Thank you.

Operator

Victor Paschoal from Itau BBA has a question.

Q - Victor Paschoal

Good morning, everyone. My first question has to do with margin performance of the Northeast stores. How about the gross margin and the EBITDA margin this quarter? I'd like to have an understanding of profitability or different levels of profitability in these stores? My second question, based on Luiza's opening comments on virtual stores, since last year, well, I would like to understand when exactly you intend to open the store model again?

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Let me answer, we grew 35 stores, with 105 stores with Bau. By the way, this was the reason why I struggled to buy Bau, I felt the price was cheap, so we turned 35 stores and we have 105 virtual stores now. And regardless of e-commerce, billing will be very high, so we grew. What happened was that some of the 35 stores from Bau converted into virtual stores.

So, we grew in virtual stores and we keep on growing. Heliopolis, for instance, is a mix store that Frederico is working with brick and mortar stores and dot-com. We really wanted to have a virtual store here for you to know, as we are opening one now in Heliopolis and we also have communities like Paraisopolis, you could go and visit, it's really cool. I visited them very often even with people from Samsung, Whirlpool, I take these people there, and we'll be opening for very good and better store. So, we never stop. We opened 38 or 39 last year, and Roberto can give you the right figures, and Tatiana in our team can also give you the right figures. We never stop, quite the opposite, Bau was my goal to increase the number of virtual stores and have a leap. So we never stop.

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Virtual stores operating profit is even the greater compared to conventional stores and shopping mall stores. The Northeast stores, as of November, if you check our income statements, this is inside Magazine Luiza. We don't have the former company name. From April to October we fully integrated all the stores. So we no longer are communicating the former Lojas Maia, Vasconcelos not even LuizaCred or Luizaseg, because these both are in the equity method.

I can say there is a gap in gross margin of the Northeast, because now we have more visibility, but the systems are the same. We already have gained a brand improvement in the Northeast in the first quarter, and now we have another opportunity, the operational in commercial areas are working together, so that gradually we can improve the margins in the Northeast.

There will be a time in which it will be equivalent to the Southeast, just preserving some particularities of the region. But our focus and, by the way, this is part of the process, to improve our gross margins.

Our focus is to improve our gross margin in the Northeast, preserving the margins in those regions. Now, for the future, whenever there is something very significant in the Northeast, be it upwards or downwards, we will be disclosing that to the market, but only when it happens, only when we have something different.

Right now we have gradual gain in gross margin in the Northeast, and also gains in synergy, considering we had the integration until October, and as on November we also had the synergy of SG&A in the Northeast as a whole.

Marcelo, the whole operating part in the Northeast, payrolls, controls, everything is already, all the operations are already there, in the Northeast. Payments, everything is electronic now, so the Northeast right now, we have already worked on the whole administrative part, and the effect will also appear in the future. So, it's not easy to take it all that and convert, we are leaving a lot of things there for strategy, because that's another world, another country. As two operations, everything is already with the CSC in Franca, where we have our operating part, because everything is easier and cheaper for us.

Q - Victor Paschoal

Great. Just to clarify about virtual store, I'm looking at the chart on page three, and I can see the first quarter of 2012, with the flat number, 106 stores. Am I missing something here?

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

I'm sorry, Roberto will explain that.

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

We acquired Bau stores in mid 2011, and until the first quarter of last year, we were working on store re-modeling, opening.

Q - Victor Paschoal

This 35 increase happened in 2011, right? And in 2012 we had a constant number over the year?

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Well, that was at the very end, we opened stores in December because 35 stores had to be readapted, they were conventional, and small stores, so we had a feasibility study and actually sales didn't happen last year. I'm sorry, I was wrong about the figures, and about the date, but we are counting on it this year, and we will keep on growing with virtual stores, low cost, low investments, convenient.

Q - Victor Paschoal

Thank you, great.

Operator

Graziela Paiva from Santander has a question.

Q - Graziela Paiva

Good morning, everyone. I would like to know if you are interested in Via Varejo stores to be sold, particularly in Rio?

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Well, this is not an acquisition. We are interested and we already have mentioned that, it's not an acquisition. This is different if they were selling the company, it wouldn't be, but we cannot close as a organic acquisition, right? So, I called Via Varejo's CEO and I said we would be interested, I'm not saying we will buy it, but we will be analyzing it. We are in game, because this is not growth, in terms of buying inventory or customers, but only consider our organic growth. So, we are interested in Rio and virtual stores would greatly support Rio, particularly the one that Frederico is testing in Heliopolis, it will give a great support, so you can have conventional stores supported by Heliopolis stores in Rio.

If I tell you I want to know how much it's worth and where the discount is, this is different because there are many chains to be acquired. But to tell you the truth, well, when it comes to me, I say, Marcelo please, you do it. Now, when we have chains to buy, and I called him personally, because we are great friends and said I want to be in gain with Via Varejo to see the point of interest, because that's common organic growth and we are interested in it.

Q - Graziela Paiva

Thank you.

Operator

(Operator Instructions) There are no further questions, I'd like to give the floor back to Mr. Marcelo Silva for the closing remarks.

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

As you could see, all the indicators of the first quarter of 2013 have been improved, vis-a-vis the first quarter of 2012 in general. And we are confident that according to our purpose and our mission about the strategy for 2013, we will keep on growing.

We'll be assuring our gross margin, lower operating cost, so we're extremely confident that we'll be delivering quarter-on-quarter gradually positive and consistent results. So that by the end of fiscal year, we'll be delivering far more satisfactory and significant results compared to what we had in 2012. Luiza, would you like say anything?

A - Luiza Helena Trajano Inacio Rodrigues {BIO 6842617 <GO>}

Thank you very much. I would like to congratulate our team for the outstanding job last year. You were really engaged. The first quarter is already showing results. And I'm really happy with the results, like I said. And I'm confident, as Marcelo said, that we will deliver our promise to increase our income, but always being aggressive, growing sales, doing new things, and being in Magazine Luiza will always mean investing in culture, people and education.

Please count on it and I'm very happy with the part taken by us. So now, our company is based on this team, and I'm very happy and confident that we'll be delivering many good new things on a gradual basis this year. Thank you very much.

Operator

Magazine Luiza's first quarter of 2013 earnings conference call is concluded now. You may disconnect your lines now. Have a good day.