

Q1 2016 Earnings Call

Company Participants

- Fabio da Silva Abrate, CFO / IRO

Other Participants

- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Olivia Petronilho, Analyst
- Richard Cathcart, 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 First Quarter of 2016. Today we have with us Mr. Fabio Abrate CFO and Investor Relations Director of B2W and Mr. Murilo Correa, CFO and Investor Relations Director of Lojas Americanas.

Listeners can view the supporting presentation available at www.b2wdigital.com. We would like to inform you that this event is being recorded and that all participants are in listen-only mode during the Company presentation. Afterwards, we will begin a session of Q&A and when further instructions will be given. (Operator Instructions) The replay of the event will be available right after the closing of the conference call during one week. Before proceeding, we'd like to clarify that any statements made during this conference call related to B2W's business perspective, financial and operating projection and goals are based on the beliefs and assumptions of the Company as well as the information currently available.

Future considerations are not guarantees of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore depending on the circumstance 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 can lead to results that materially differ from those expressed inside future consideration.

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Now we 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 being here with us during our conference call. Throughout the presentation, we will comment on the earnings for 1Q 2016 and the past 12 months, the commercial and operational highlights and the investments made. We'd like to begin our presentation on slide three. On this slide, we will talk about the evolution of the main indicators of the first quarter of 2016 compared to the first quarter of 2015 and the past 12 months, the base date of March 31st, 2016.

IN 1Q16 total GMV achieved BRL2.5 billion dropping 3.2% and in the past 12 months reached 11.2 billion growing 14.8%. Marketplace is still rapidly developing, growing 327% in 1Q16 achieving 348 million GMV and a share of 14.2% of the total GMV representing an increment of 10.9 percentage points year-over-year.

In the past 12 months Marketplace grew 543%, achieving over BRL1.1 billion in GMV. And yet in the past 12 months, we've achieved 786,000 new customers. Considering that fact that we could have always done more and better, a group of factors has jeopardized the Company's sales performance in 1Q16 resulting in a brief slowdown and breaking a cycle of 15 consecutive quarters of sales growth.

The political and economic scenario, which is extremely unstable, together with a continuously aggressive competitive environment have resulted in an unfavorable environment to do good business. The year began with the higher exchange rate and a higher tax burden, resulting from the end of the (inaudible) and increase the ICMS grade in states obliging suppliers to readjust their price tables up, making products more expensive for end-users and facing higher indebtedness and restricted credit and with a lower purchasing power and less enthusiastic about buying their products. We've also had issues with credit card where you've seen approval rates dropping in 10 percentage point. The banks have reduced their credit limits for customers and denying higher ticket transactions which previously were approved with no major issues.

Suppliers were also affected, they were pressured by their headquarters to reduce their exposure in the country based on the uncertainty, which has resulted in a lower volume of supplying merchandise and consequently lowered inventory at B2W to offer good items at good prices for customers.

Operator

I'm sorry, we are not getting the audio feed. (Technical Difficulty) We are not getting the audio feed or the English interpretation. Ladies and gentlemen, please wait, the conference call will be back in a moment. Thank you. Ladies and gentlemen, please wait, the conference call will resume shortly. Mr. Abrate, you may proceed.

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Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you. Good afternoon. I apologize for the technical issue. Let's go back, so the suppliers were also affected, they were affected by their headquarters to reduce the exposure in the country based on uncertainties resulting in a lower volume to provide merchandise and therefore less inventory at B2W to offer good items at good prices for our customers.

Marketplace, although it had excellent performance and a growth of 327% also had a reduced feed. As a result of the changes in charging ICMS tax for e-commerce, the constitutional amendment number 87. Many sales people could not bill goods in January, and the beginning of February, because they had not yet adapted to the systems for this new calculation and to collect taxes. One thing in unfavorable scenario for sale, B2W took very fast countermeasures to balance out the financial variables and preserve cash flow. The reduction of gross profit was neutralized with a proportional reduction of expenses and a generation of nominal EBITDA at levels equivalent in the two years. The Company believes that the first quarter of 2016 was a period for internal and external adjustment, they will be essential to capture more favorable scenario, which is in the future.

We are very confident about the potential for growth of e-commerce in the upcoming years. We're ready to continue to invest in this platform and monetize all the business fronts.

On slide four, we'll go into the evolution of the market share of B2W. As a result of the investments carried out in the past years, B2W market share expanded 4.1 percentage points, moving from 19.9% in the first half of 2012 to 24% in the first quarter of 2016. With that the distance of B2W to the second player increased 2.9 percentage points to 6.3 percentage points.

On slide five, we will talk about the advances in the commercial and marketing fronts. The best purchasing experience for customers at B2W is a result of excellence in operation and managing commercial variables. The success in sales depends on many different factors such as the assortment divided by customers, adequate inventory level, payment methods and terms, delivery dates among other. And some of the highlights in that sense were inventory management, we still have a stock out inferior to 10% and record an evolution of 3% in 1Q16 year-over-year.

Assortment, we expanded 35% in 1Q16 year-over-year. The efficiency in the delivery, we've gained 8% in productivity in the distribution centers in 1Q16 as a result of the process improvements and by implemented automated lines for billing, which resulted in a faster delivery terms for our customers.

Six, we highlight the fast development of the Marketplace. The Marketplace added more than 1,000 sellers in the first quarter of this year, going from a base of 2,500 sellers to more than 3,500 sellers at the end of the first quarter. For the past 12 months, the Marketplace showed strong performance with a growth 6.4 times year-over-year reaching

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more than 1.1 billion of GMV. In the 1Q16 the Marketplace achieved a share of 14.2% of the total GMV, a 10.9 percentage growth year-over-year.

In line with B2W to integrate new stores, the several sizes and several sectors. The first quarter, the Company integrated the stores, Brastemp and Consul that joined other large brands already present at the Marketplace like Sony, Lenovo, Acer, Positivo, Ambev and Multilaser among others.

On slide seven, we comment about the new partnerships in the Marketplace that will enable integrating more than 2,500 new sellers in our platform. In the first quarter of 2016, the Company established partnerships with VTEX, one of the five largest companies of e-commerce platforms in the world and with Rakuten Brazil, the first company of the Rakuten group in Latin America. These partnerships will enable that more than 1,300 sellers of VTEX and the more than 1,250 sellers of Rakuten Brazil sell the products in the largest and dearest brands of the Brazilian Internet Americanas.com, Submarino and Shoptime.

On slide eight, we showed the development of the Company's logistics platform aiming at being closer to the customers. B2W Digital operates with 11 distribution centers throughout the country. In the first quarter of 2016, storage area of B2W totaled more than 500,000 square meters, a 35% growth compared to the first quarter of 2015.

The Company also has 14 strategically located hubs throughout the country. An increase of 55% when compared to the 94 hubs that were operating in the first quarter of 2015.

On slide nine, we show the development of the Company's distribution platform. In 2013 and 2014 B2W Digital bought two main transporting companies specialized in e-commerce in Brazil. Click-Rodo and Direct resulting in the creation of the B2W Distribution Unit. Throughout the first quarter of 2016, B2W's distribution unit share reached 74% of the total of the deliveries carried out by the Company when we compare to a 55% share of deliveries in 1Q15.

In this first quarter, B2W distribution unit started to deliver 20 to 25 different customers representing 1.6 million new deliveries per year. These new customers, eight are among the 20 largest sellers of the Marketplace.

The verticalization of distribution enables to create in 3Q14 the freight menu that today offers up to six delivering methods to the country, Same Day, Next Day, Fast, Standard, Scheduled Delivery and Store Pickup.

In the first quarter of 2016 the number of deliveries for the Next Day option increased eight times due to the expansion of geographic coverage including cities of Rio de Janeiro and Belo Horizonte. And also due to the increase of the weight limit for orders up to 32 kilos.

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For the Fast delivery option that offers a 35% faster delivery in the market is available for 100% of the assortment of products and in all the states of the country, increasing its share in the Company's deliveries of -- that was from less than 1% last year to 10% in 1Q16.

The option of store pickup is currently available in 203 stores compared to 15 stores year-over-year. And its use has increased 14 times in the same period. The shipping menu has been a huge success with our customers that received their products quicker and enables the Company to increase its shipment coverage rate, which is the revenues from shipping, the split by the shipping expenses.

In slide 10, we present the leadership position of B2W Digital in the migration of e-commerce to m-commerce. Mobile devices traffic reached 44.3% of total hits, a 12.3% growth year-over-year. In the first quarter of 2016 all the companies apps together were downloaded 1.2 million times, three times more than the total downloads in 1Q15.

The Company is still investing in developing its apps to improve the customers shopping experience, which has generated important gains in customer engagement, growth of traffic and the number of orders carried out by these devices.

On slide 11, we present BooLabs, which was acquired in March, 2016. BooLabs is a startup of artificial intelligence specialized in emerging technologies, including machine learning, deep learning and natural language processing. With this acquisition, B2W will intensify the use of data science and will gain expertise to leverage its search engines and product recommendation in terms of relevance and customization.

Now going to slide 12, we highlight B2W Services, result of the integration of 12 companies that were acquired among which 10 technology companies and two transporters that are specialized in e-commerce. B2W Services offers full solution in the verticals of technology and logistics to provide support to the sellers operation in the Marketplace and to online operations of large partner brands.

On slide 13, we highlight the achievements of B2W Digital in regard to the customer service. In March 2016, Americanas.com was chosen the most popular virtual store by Brazilian Internet users. According to a research did by Contecta-i/IBOPE 60% of the Brazilian Internet users use truly [ph] purchase apps Americanas.com, which was 15% in front of the second runner. This achievement is the result of all the investments carried out for the past years to be closer to our customers and shows strength and recognition of B2W brands.

Also the four brands of B2W Digital are considered references in customer service having received a RA 1000 seal, the highest level of reputation at the Reclame Aqui website since 2014. The average score given by customers at Reclame Aqui for the B2W brands is 7.2 while the brands of our competitors have an average score of 4.9. Also 78% of the customers that have complained that Reclame Aqui, say that they intend to buying again from B2W brands while only 52% other customers say that they would go back to buy at the competitors website.

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On slide 14, we highlight our most important assets, the best and largest team in Latin America. B2W will carry out in Rio de Janeiro the International Summer Internship, a program to recruit students from North American universities. The Company intends to double the amount of selected students in compared to the first phase of the program, which was carried out in December, 2015.

The Company also started an internship program, a part-time at their research and innovation office in Boston, United States aiming North American university students.

B2W continues to expand talent recruitment specialized in data science and analytics. Now moving on to slide 15, we'd like to reiterate our commitment to sustainable development.

B2W Digital is the only and -- first and only Company that's part of the Corporate Sustainability Index at BM&FBOVESPA. A new strategic partnership was developed between B2W and the sustainable initiative at MIT Sloan, sustainability initiative to assess the maturity of the Company's sustainability practice. Through benchmarking with other companies, B2W Digital continues with the partnership with the CDI, the committee to democratize IT and with the Department of Education of the State of Rio de Janeiro called SEEDUC within the project TecEscola, an innovative project that's training 150 teachers at 50 unit of public schools to benefit approximately 15,000 students.

On slide 16 we are highlighting the evolution of B2W Digital within its financial metrics throughout the past years, increasing operating cash generation and reducing the need for future investment. In that manner, CapEx as a percentage of total GMV was reduced from 12% in 2013 to 5% in 1Q16. While the CapEx coverage index by EBITDA in the same period evolved 60% up to 98%.

As we can see throughout the presentation, the investments carried out generated gains of scale, an important return in developing Marketplace and the leadership in the migration to mobile devices.

In the upcoming five years from 2016 to 2020, B2W will continue to invest in digital platform that connects people, product, services, and business profitabilizing [ph] all the business fronts with the purpose of generating free cash flow and value to its shareholders.

Lastly, we'd like to thank the dedication of all our associates that are part of the best and most successful digital team in Latin America. And that one more made the difference. We'd also like to thank our suppliers with this partnership, the sellers at Marketplace for their choosing us and our shareholders for their trust and especially our customers for their preference. Those were the main comments related to our performance in 1Q16.

Now, I would like to open for Q&A, so we can clarify any eventual doubts you may have. And for all -- so that all can have an opportunity to participate, please be brief in your comments.

Questions And Answers

Operator

Ladies and gentlemen, now we will begin the Q&A session. (Operator Instructions) Our first question is from Ms. Olivia Petronilho from JPMorgan.

Q - Olivia Petronilho {BIO 19090195 <GO>}

Hi, Fabio. Thank you for taking my question. Actually, I'll be very quick, I think it's mainly related to cash burn and we've seen this quarter actually and the year overall we've seen that a lot. So I'd like to know how do you see if you need to collect more capital and your investments in CapEx from now on?

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

Thank you, Olivia for your participation and your question. In relation to the Company's leverage where it is important to mention that in the first quarter, we suffer more pressure because of the payments from the end of the year when we have the main Company event, which are Black Friday and Christmas. So historically speaking, when we took a look at -- take a look at end of your closing and first quarter closing there's a leverage between 1 to 1.5 EBITDA. So what we planned for the beginning of the year, we believe that the Company is bit -- fits within the leverage levels that we were expecting.

Looking forward, as we've already been -- has been saying, the main investments in the platforms, they were made throughout the past years, especially in the past three years, where we invested BRL2.3 billion to build an unique platform to operate e-commerce in Brazil and considering all the challenges we faced in our country.

So, looking forward, and in the first quarter, we can already see that our CapEx levels had significantly dropped. As a percentage of total GMV, it represented 5%, so from 12% in 2013, and a very important metric that we were also following is the coverage index for CapEx over EBITDA because in 2013, in the first plan, it was approximately 60% and now in the first quarter it's close to 100%. So we're very confident in relation to cash generation and the cash generation we believe that will be extremely important so that we can fund our growth.

Q - Olivia Petronilho {BIO 19090195 <GO>}

Great, thank you, Fabio.

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

Thank you, Olivia.

Operator

Our next question is from Guilherme Assis from Brasil Plural.

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Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, Fabio. Thank you for taking my question. I'd like to explore the competitive environment a little more. We know about the increase in e-commerce and the programs -- or problems that happened in the quarter resulting from the ICMS tax rate change.

So, was -- there was a drop in sales not only in Marketplace, but the gross margin is still flat, you were able to maintain your gross margin, you mentioned that the competitive environment is extremely aggressive, we haven't seen one of the main, your second main competitor lost a lot of market share and they did worse than you. So tell me about the competition?

Did you stop investing in price or stop being aggressive in price in this quarter? And do you think if that happened, what was the impact of that or if you think it was mainly a result of the tax change. So I'd like to understand that a little better. So what happened and from now on, what should we expect?

So will you grow more in line with the market and be able to maintain your margin. So tell me about that dynamics, what is the Company's strategy looking forward? Thank you.

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

Thank you, Guilherme. In fact, as you've seen the first quarter of the year was an overall unstable environment, which required the Company to carry out many different adjustments based on all different areas. But the competitive environment is still there and it's very strong. The regulatory change was in fact a critical point for everyone, not just for us, but also for Marketplace sellers. But once again, Marketplace, even with this type of problem, we believe that their performance was very good, growing 327% reaching an amount of 1.1 billion in the past 12 months. That expresses if you take into account that it's an operation, that has just a little over a year in operation. And in 3P we didn't drop our sales, on the contrary we grew -- and the highest challenge we had was in 1P based on the points that I mentioned in the -- in my remarks. There was -- we had a lack of goods, so it wasn't just bad for the quarter, it was bad for everyone, supplier -- it was bad for suppliers, our customers aren't excited. They are not interested in buying based on all the problems that we all know about.

So, that in fact resulted in loss in sales, we dropped 3%. So, we are not satisfied about that at all. Quite on the contrary, our business that is about growing in sales are paramount, so that we can achieve our objectives and in fact scale this platform.

We broke up with a cycle of 15 consecutive growth -- quarters of growth. So the necessary adjustments were made, but we could have done better. That feeling will always exist. But regardless of the drop in sales and consequent loss of gross margin, based on huge efforts in expenses, we were able to balance out our cash generation.

So, balanced out the nominal EBITDA generation. So regardless of all the variables that were effected, we were able to generate the same nominal EBITDA year-over-year. And

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we also preserved our market share. So we were stable 24% and in fact our main competitor lost a lot of share probably because of the same problems, but even I think overall based on other problems that they have reported. So in order to preserve cash, we were, I believe, we were able to balance out the variables in the first quarter. And looking forward we are still excited.

April was already better than the first quarter and the first couple of days of May have already indicated in a more fierce scenario that it's going to be a better scenario and we're going to continue with our dynamics to gain market share. That is our main objective. Once again it's a business about growth, so to generate cash, we need to grow.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. And Fabio, just a follow-up question, you mentioned maintaining your EBITDA, that you were able to adjust for this challenging scenario throughout the quarter. I would like to understand a little bit how this dynamics works with the leverage. I was deeply impressed with the results you had in G&A especially because I think there has, there is a very variable component. In the percentage of your G&A you did some drastic adjustments. Where does this reduction come from?

Did you reduce, downsize the team, I want to understand a little bit. If you can talk a little bit also about some specific aspects, but what you did reduce and the leverage that comes from that? But for G&A, specifically, I think there should be a more fixed component there. And you were able to really cut down. So can you talk about that, please? Thank you.

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

Thank you for your follow-up question. Well, we did rationalize our expenses remembering that we had already presented an operational leverage in the past quarters that had to be intensified now in the first quarter of 2016. So the main adjustments that we needed to do were made were much lighter as a structure and ready to face the next months that are showing to be better than we had in the first quarter of the year.

So, it was basically efforts on operations of the Company. So we invested heavily in the past three years. So today we are able to have operational efficiency much better than we had in the past. And our distribution unit already represent almost 80% of all our deliveries. So we're starting in fact to reap the fruits of what we invested in this platform in the past years.

So we're never going to be happy with our expenses. We always believe that we can do better. And looking forward, our expectation is to continue to grow that fundamental and continue to optimize and rationalize all our expenses in the Company.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay, thank you very much. Fabio.

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

Thank you.

Operator

Our next question is from Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Good afternoon. My first question is about the drop of GMV. When you look at the main indicators of e-commerce average ticket and sales conversion, what better explains this drop in the GMV, is it the conversion that has been dropping, you mentioned less credit card approval, I would like to know the share of the mobile, if it does have any effect in this approval, is approval on the mobile device higher than that on the website?

And the second question is also about the competition, a little bit following the previous question. When we look at two main players that showed growth above B2W and above the market, what do you think that these competitors are doing that is different? Are they focusing more on price, how can B2W compete? More specifically Mercadolibre. How do you see the growth of their GMV that they announced the first quarter?

Can you consider Mercadolibre was one of the greatest competitors of B2W since they have been concentrating on Marketplace. Is it a different type of Marketplace? Do you think they can be -- the customers can be migrating from the large website to their type of commerce like Mercadolibre? Thank you.

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

Thank you, Franco. Your first question, I think you covered the main issues. The average ticket did increase because of the factors that we already commented. A higher exchange rate putting pressure on those products that are indexed in US dollars and the higher tax burden. So some benefits -- tax benefits that we did have in some of the main categories of e-commerce like smartphones, laptops. Just for you to have an idea, the laptop that was sold one year ago, around BRL1,000 to BRL1,300 now it's BRL2,500.

So the average ticket did increase and with higher restriction on credit, it becomes a very complex thing. There was a reduction in the approval rate for the credit card by 10%. So, to have the same amount of sales you have to put 10% more orders. So the total of all these challenges together is what we have been facing in the first quarter that ended up with the results on the top line.

In terms of conversion, you touched another very important aspect. In fact, mobile is known that has a lower conversion rate than the desktop conversion rate, so that is one of the greatest challenges. But it's a good challenge because in fact, we are very advanced in our platform for mobile devices. There are lot of things that can be done. We have a strategic plan that is well-defined for that topic, but with the growth of traffic that today already represents 44% of all the Company's traffic being done on mobile devices, you have an initial loss because of a lower conversion rate.

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About your second question, about the competition, in fact, some competitors did have a better topline than ours. One of them is pure Marketplace. So in the Marketplace, we did go well, we grew 327% in the quarter more than six times when we compare to the past 12 months.

So, this shows us that the Marketplace in fact is a very good business and has a potential that is huge. And we do see this pure Marketplace competitor as our competitor. The market is huge to be tapped into, and we had zero of the Marketplace, now we have 1.1 billion. So we did grow.

So we're going to that Marketplace and we have a better value proposal for the seller to be with us and not with them. So we believe strongly in that.

The other player, I can't speak for them, but what I can say is that, we did see a very strong competition, very aggressive in terms of price in this quarter and our decision was to balance our variables, our financial variables.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. Thank you, it's clear. Thank you. Just a follow-up, do you have an overlap of the sellers that you have with these competitors in the Marketplace. Is it a relevant overlap of the sellers between the two websites?

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

We do have this visibility, but because of strategy, we don't talk about it, Franco.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay, thank you very much. It makes sense. Thank you.

Operator

Our next question is from Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Hi, Fabio, how are you doing? Good morning, everyone. I have a question when you were giving the presentation, you mentioned the problems that suppliers faced with lower product availability. But on this slide, you also mentioned the assortment increased 35%. I'd like to understand that better. What exactly happened, was it specifically some suppliers with that have a higher ticket, where those the one that had issues? I just like to understand that better please.

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

Thank you, Gustavo, excellent question. Yes, in fact the assortment quarter, comparing both quarters, they increased 35% because of Marketplace because it's following a very rapid rate. So in assortment, we were well-positioned. What was lacking is depth in some

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categories. So when you don't have depth based on a supply issue, you are less promotional so to speak for your customers. So you try to preserve your inventory and consequently sell less. So that is the relation between a lack of inventory and on the other side, a range of assortment.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Which category specifically had this type of problem?

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

In the electronics category overall, the white line, smart phones, tablets, laptops. Basically in the categories that have a higher ticket.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Is that normalized now. So -- or did they -- these suppliers leave and are they not coming back?

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

As I mentioned, Gustavo, it was just a period for fine-tuning I'd say for us and suppliers. Now we're taking on a new dynamic when compared with the first quarter.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. My second question is about the credit side. You mentioned that consumers were also affected that they weren't able to approve some of their purchases with the bank credit card. So, how are you funding your growth? You securitized a high-level of receivables, so how are the rates that you're paying, are the spreads increasing? Tell me about that. How is that evolving?

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

Thank you for your second question, Gustavo. Yes, in fact, the credit scenario for customers is not favorable. There is credit restriction. So, people have less limits and availability to buy. And that together with a higher average ticket based on the topics that we already mentioned, the US dollar rate and higher tax burden has a very bad effect on sales.

In relation to discounting the receivables, the rates are stable. As there was an increase in the securitization rate and what you've seen is an increase in the discount of the receivables is a result of Marketplace. All Marketplace sales go through B2W. So as Marketplace is growing, we will naturally have more credit card to discount. So that was the effect that was observed, that is also worth noting that that cost, that additional cost that the Company will have because of these receivables is charged in the sellers take rate.

So the rates that we have with the Marketplace sellers, one of the main aspects of that is that cost that the Company has to discount the credit card and pass that on to the seller in

cash.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

So you're saying that the increase in receivables is connected to that, it's not that you're giving more credit to sell, it's related to Marketplace' share growth.

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

Yes, exactly. So when we exclude Marketplace from that variable, which is gross credit card, you can have days receivable, which is aligned with what we have last year.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay, yes. Now, it's clear. Thank you. The last question I have is the partnership you have with VTEX and Rakuten. Are they exclusive or can they offer the same client base to other Marketplace competitors?

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

Yes, there were two extremely important partnerships. These players are very well-known within this business or e-commerce platforms. And they were in -- will enable us to connect over 2,500 new sellers to our platform. These partnerships as well as the Marketplace sellers are not exclusive. We do not require any exclusivity because we do believe that exclusivity at the end of the day is a natural effect, as we create a tighter partnership be it with these platforms or directly with sellers and offer the best service and the best advantages. We will naturally have more sales going through our platforms instead of the competition.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you, Fabio.

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

Thank you, Gustavo.

Operator

Our next question is from Richard Cathcart at HSBC.

Q - Richard Cathcart {BIO 16457807 <GO>}

Hello, good afternoon, everyone. I just have a question about the freight or the shipping menu that you described. Where you talked about the development in the past two years. So I'd like to know if the quality of the delivery is improving. So with more share of your own transferred companies so is it growing? And in addition to that question, I'd also like to know how much you're able to monetize the shipping menu? Thank you.

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

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Thank you for participating, Richard. The delivery services have in fact improved a lot and we can see that, based on the customer service levels. So, our four brands have the maximum seal in reputation and this has started already in past at Reclame Aqui and all the other indicators such as the average score and the evolution of programs and if they would buy again or not.

When we compare B2W with the other market players, you can see that B2W is in fact much better. And knowing that shipping is one of the main aspects, one of the main reasons for complaint in e-commerce in Brazil, so the strategic movement that we did by acquiring the two main transportation companies in e-commerce in the market in 2013 and 2014 has placed B2W at a level which, I wouldn't say comparable to our competition, that's very good, not just from our 1P business, but also for our Marketplace business where we can start to offer the Marketplace sellers this platform of logistics and distribution that we've build for our 1P business.

So out of the 20 main marketplace sellers, today eight are already operating with us, within the last mile. So at the end of the day, that can be translated into a better service level for our customers. We can streamline our sellers costs. And at the end of the day it's a win-win situation. So, the initiative for the plan moving on to your second question, about the shipping menu, that initiative is very recent charging shipping on the web. You know that it's not easy because you really have to offer something different to be able to charge shipping. And we've started to notice that out of the six options that we currently have for our customers, we're the only company that has a shipping menu, a complete shipping menu, not only for lightweight goods, but also for heavy goods.

So, we've already started to see huge adherence where we've shared some of the delivery indicators for the fast delivery, which is Next Day and also store pickup and that really makes us excited when we look forward in an attempt to mitigate one of the company's main expenses which is shipping.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you very much.

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

Thank you.

Operator

Our next question is from Tobias Stingelin, Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Hi, Fabio. I have a question, I know you mentioned the competition in Marketplace, but the question I still have is that, today we have the results from Magazine Luiza and their gross revenue grew 27% and the other competitors like you and (inaudible) with a different performance. And from what we saw on their call, the message about the competition was a little different. They say that the market is less competitive, we can't

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keep the same prices that we did before because the companies aren't making money. And we see that actually through your numbers and your language and your margin is that, the situation is a bit different.

So, where are we missing? What has actually happened? Did you put your foot down say no, we were more aggressive before, now we decided to be less aggressive, so that we can understand because there is a huge difference between what we saw.

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

Thank you, Tobias for your question. So, in fact the competitive scenario is still very aggressive. When you look at our margin and not looking on the percentage over the net income, but on the gross revenue, we lost 1.6 percentage point in gross margin. So this is due basically to the competition that we faced in the first quarter. So, we lost sales, we lost margin, but we were able to balance that out with expenses. So, this -- fact is that the market is still irrational in terms of pricing, I can't talk for the competitor, but on our side, we didn't see any change in the competitive scenario. What we did do, was try to balance that out, balance our top line with the Company's bottom line.

Q - Tobias Stingelin {BIO 18290133 <GO>}

But in your opinion just -- in addition to Magazine Luiza, who really did grow, are other competitors also growing? Is there anyone else growing in this market?

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

Even players that have a worst financial situation like worse cash flow, Tobias, a very important indicator for us is the share. And we were able to maintain our share in 24%. Again, I can't talk on behalf of my competitors. There is a sales base, we grew 30% in the first quarter. So we have to fight against that. When we look at the competitors, the scenario was much different last year, which shows -- which makes it easier to show a better growth in the first quarter of the year. We did not grow, we're not happy, we did all the necessary adjustment. We were able to maintain our market share and we continue very excited with the growth in the Marketplace and with what we could see in the months of April and we could also see the first few days of March -- of May.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, thank you. About the Marketplace, you said that the 20 greatest sellers, eight are using the logistics platform. How many are adopting the full solution that you offer, the technology logistics, which should reflect on a take rate that is going up? Last year you had an 88 million of revenue, 350 when no one else had that growth, but you have more solutions than others.

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

Thank you for your second question Tobias. In fact in the Marketplace, eight of the 20 sellers already adopted our last mile solution. This storage plus last mile today, what we have are the B2B stores like Ambev, Motorola. So large brands, large companies already recognize that B2W is the best in Brazil. In terms of logistics and distribution and already

operate with us. So, this is a gradual process that we have no doubt that it will grow heavily throughout 2016 because it's natural path. The options that exist in the market, we know that are more expensive and worse in terms of service and B2W is ready to embrace all those who want to share this platform that we built with us. We built for us and for others, but we do expect is that the take rate of the Marketplace with this movement will expand even more because it's an additional layer of services that we are offering and consequently charging for.

So again, Marketplace has to continue to grow strongly and the profitability of the Marketplace tends to grow also.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, thank you. Thank you very much.

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

Thank you, Tobias.

Operator

Our next question, Robert Ford, Bank of America Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Good afternoon and thank you for taking my question. Fabio, it seems like you reduced your inventory levels in March considering seasonality. What is causing that and how does this affect your availability of products?

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

Thank you for your question. You're right. We already mentioned today that in fact, the inventory were harmed because of the level of supply of goods just like B2W had several adjustments to be made, the suppliers also had to re-adjust themselves. What we saw in the first quarter was that, everyone did put their feet down because of the uncertainties in the politics and economy. So our inventory was harmed.

We have a bias of efficiency and we also have a bias of lack of products. So this market already went back to track. We are large, so we demand much more goods than the other players. We have 11 billion [ph] in sales. So we will suffer more for this period of turmoil and uncertainty that affected also our suppliers. So what we have been doing is more than ever getting closer to our partners to understand also what are their difficulties. And when we can, we help them anyway we can. But the inventory topic was already corrected. So the Company today is much better supplied than we operated in the first quarter and the future results will definitely be better because of that.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you, Fabio. And what was the importance of this change of ICMS full year revenues in the quarter. An estimate, please?

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

That's okay. When we look the gross revenue dropped 12.8% in the consolidated. When you look at the net income, it dropped 19%. So this difference between one and the other is exactly the change in taxes. So that was the affect.

Q - Robert Ford {BIO 1499021 <GO>}

No, I'm talking about the change of the structure of the ICMS from the original state to the destination state and the distinct regulatory structure. How much does that affect you?

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

Our systems, the main issue when you say there is a change -- regulatory change that is that powerful, you have to be prepared to pay your taxes properly, as the Company always does. So, we adjusted all our entire system at the end of last year. So we started the year ready to operate with these new regulation.

So, in regards to the change in the practice of ICMS of charging at the origin and part being charged at the destination, it affected B2W very little. But we saw some sellers in the Marketplace that don't use our technology platform that suffered more since they are the ones who build the products for their customers, each one of these sellers had to adjust. And obviously the adjustment skill of the smaller sellers is different from that of B2W. So that's why even with the good performance in the Marketplace, we are sure that we could have done even better.

Q - Robert Ford {BIO 1499021 <GO>}

Okay, thank you very much.

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

Thank you.

Operator

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

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

I'd like to thank everyone for participating during our conference call and webcast. And I'd like to take this opportunity to wish you a Happy Mother's Day, next Sunday and also to invite you to see the major offers that we have for the dearest friends on the internet Americanas.com, Submarino, Shoptime and SouBarato. In case you have any additional doubt, our Investor Relations team is at your disposal. Thank you very much and good afternoon everyone.

Operator

The B2W Conference Call is now closed. We'd like to thank you for your participation and have a good afternoon and thank you for using Chorus Call.

FINAL

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