

## Y 2014 Earnings Call

### Company Participants

- Emmanuel Eric Lemaitre, Chief Financial Officer
- Libano Miranda Barroso, Chief Executive Officer
- Marcelo Rizzi de Oliveira, Investor Relations

### Other Participants

- Andrea Teixeira, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Ricardo Boiati, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning ladies and gentlemen, thank you for standing by. Welcome to Via Varejo Conference Call to discuss the results for the Fourth Quarter of 2014. This event is also being broadcast via webcast, which can be accessed at [www.viavarejo.com.br/ir](http://www.viavarejo.com.br/ir), with the respective presentation. Slide selection will be managed by you. There will be a replay facility for this call on the website.

We inform you that the company's press releases are also available at the IR website. This event is being recorded and all participants will be in listen-only mode during the company's presentation. After Via Varejo's remarks are completed, there will be a question-and-answer session, when further instructions will be given. (Operator Instructions).

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Via Varejo management, and on information currently available to the company, they involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry condition and other operating factors could also affect the future results of Via Varejo and could cause

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results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. Marcelo Rizzi de Oliveira, Investor Relations Officer of the company.

**Marcelo Rizzi de Oliveira** {BIO 21142716 <GO>}

Good morning, everyone. Welcome to Via Varejo earnings release, referring to the fourth quarter of 2014. This call will last one hour and we will start with a brief presentation of our results to be made by Libano Barroso, CEO of the company, Emmanuel Lemaitre, CFO and then we will open the floor to questions.

I'll now turn the floor to Libano Barroso.

**Libano Miranda Barroso** {BIO 4670536 <GO>}

Good morning, everyone. Thank you for joining us. We are communicating to the market today, our fourth quarter 2014 results and also the results for the full year. 2014 was a challenging year despite macroeconomic challenges, we were able to work with our micro leverages, seeking operating efficiency. And with that, we had a net revenue of BRL22.7 billion, an increase of 4.2% compared to 2013 with a market share gain and a record of 88 stores opened.

We have been indicating to the market that we were expecting to open about 70 stores in 2014. And for 2014, '15 and '16, we expect to open 70 stores every year, so we actually had a record of 88 stores. Our Adjusted EBITDA was BRL2.3 billion with an adjusted EBITDA margin of 10.2%, up 29.4% compared to 2013. The relationship between sales increase and margin increase clearly shows our continuous search for more productivity, more operating efficiency, reduction of costs and using our tools or leverages which I will speak about momentarily and particularly improving our relationship with our suppliers. Because we are an important channel in any partner of the industry.

Adjusted net income of BRL964 million with adjusted net margin of 4.3%, up 34.1% compared to 2013. And after talking about these three numbers, net revenue, EBITDA and net income, (inaudible) clear, that we went to our first year as a company. We only have given the guidance about the opening of new stores, but I believe that we have shown, that we are posting a result which is within the market expectations and actually exceeding them.

Finally, all those growth and profitability were purchased with financial discipline, because we generated BRL940 million of cash in 2014, which is a result of our operating improvements. And again the financial discipline which is solid, cautious us to always grow and expand, but always generating cash. This is one of our leverages, so we always want to have a strong balance sheet. We want to be a cash generator with financial discipline.

I'll now turn the floor to Emmanuel.

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## Emmanuel Eric Lemaitre

Good morning, everyone. Let's start with the net sales of Via Varejo. The fourth quarter 2014 showed a net sales increase of plus 2.7% which is BRL6.4 billion in sales. This growth which was 2.7% would have been 4.4% ex-CADE growth, which meant some stores that were closed because of the agreement that we had entered with CADE. So if we were not considering the sales of a growth, growth would have been 4.4%.

Now talking about same-store sales. Again, I will come back to the positive growth. We grew 1.5% over the fourth quarter of '13, sales grew 4.2%, again ex-CADE growth which have been 5.1%. Total revenue for the year reached BRL22.6 billion, same-store sales in 2014 versus 2013 was 3%. We opened 60 stores in the fourth quarter of '14 of which 37 were Casas Bahia banner and 23 Ponto Frio stores banner. During the year, 88 stores were opened. So in the second half of the year, particularly in the fourth quarter, many stores were opened and the company will continue to well combat in 2015.

In 2015, we will continue to open stores, so we want to be relying too much on last year's second half. It is important to note, that in the 88 stores, this was a new record opening mark for Via Varejo never have we opened so many stores, of these stores, 10 mobile standalone pilot stores. (Technical Difficulty) opening the stores by region, we opened 43 in the Southeast, 23 in the Northeastern region, in the south nine new stores in the Midwest, 12 and finally one new store in the North.

When we look at the growth, the representation of our new stores in the Northeast, North and Midwest, we had a 27% more stores in the Northeast, 20% in the North and 13% in the Midwest, clearly concentrating the growth of our new stores in each region, which are the fastest growing in Brazil.

Let us move now to slide four, talking about our gross revenue. Gross profit increased from 30.3% of our net revenue to 34.4% of our net revenue with the total of 4.1%. Actually genuine increasing in gross profit was 1.8%. During the fourth quarter, we benefited from fiscal credit. Every year, we have tax credits in the fourth quarter had a higher volume of these tax credits and this helped drive gross profit. Net of these additional tax credits that we had, gross margin would have been even higher.

Now our growth increased by 30 basis points in expenses, talking about our expenses. Expenses through continuity of the expenses management plan and operating efficiency improvement. Our sales in the mix was helpful as well as the growth of our revenue, services revenue of assembly and such.

Talking more specifically about selling, general and administrative expenses, they increased from 21.3% in the first quarter of '13 to 22.3% in the fourth quarter of 2014. The proportion of selling expenses as a percentage of net revenue being genuine instead of being 22.3 would have been 21%. Here again we had a higher of volume of provisions, provisions for a lawsuits. So we see that our expenses as a percentage of net revenue would have increased from 21.3% to 21%. So we would meet again in productivity for the

operation. Our adjusted EBITDA from the third quarter to the first quarter showed a record of 37%.

When we consider the full year, we increased the adjusted EBITDA from 1.7 billion to 2.3 billion. And we see a percentage net revenue 8.2% increasing to 10.2%. Our adjusted EBITDA instead of being 10.2 in here would have been 9.9% if we were not considering other factors.

Let us talk now about the working capital improvement. We will concentrate on gap between inventories and suppliers, considering that our accounts receivable fully discounted. We can see that Via Varejo doesn't have a need for working capital on the country. In 2013, we need 814 million, but we improved this to 1,148 million [ph], we in terms of gap between inventories and suppliers, there have been an improvement of eight days.

Let's talk about cash generation. Our year-end position, we ended 2013 with 1.2 billion net cash in the company. We closed 2014 with 4.4 billion and a cash improvement of BRL914 million. Our growth debt was reduced by 266 million, the combination of generating 940 million and the reduction of the growth net ended to a net cash of BRL1.2 billion more if you compare the fourth quarter '13 to the fourth quarter of '14 and we ended 2014 with a net cash of BRL3.6 billion.

Whether it's important to highlight that even considering CD -- our net of about BRL2 billion with CDCI would have been even positive, so we are in a condition to finance the CDCI. And with that our position would have been the positive 714. Net financial results in the last quarter of 2014, we can see that our financial expenses, even with some relevant monitor variation that helps the fourth quarter grew by 20%, a growth that is lower than CDI rise. And finally with the increase of net financial expenses grew 23.2% lower than the CDI rise in the period which increased 34%, mainly as a result of a number of optimizations of our financial results, optimizations that you know about. Pre-payment of our suppliers and the fact that in several moments of during the year, we start pre-paying our credit card receivables.

Speaking about net income now. We can see net income in the fourth quarter grew from BRL264 million to BRL371 million grown by 41%. For the full-year, net income is growing 34% reaching BRL964 million. And adjusted net of favorable events that we had in gross income and also unfavorable events that we had in expenses, this gross income would have been BRL921 million, so gross income that is pretty much in line with our expectation to the market.

Now focusing on our financial indicators, over time, performance overtime from 2011 to 2014, we can see gross margin has been growing from 28.1% [ph] in 2011 to 32.4% in 2014. Our operating expenses have been going down, they went down from 20.4% in 2011 to 22.4% in 2014. EBITDA grows continuously from 4.7% in 2011 to 10.2% in 2014. And in value [ph], slightly less than BRL1 billion in 2011 to BRL2.3 billion in 2014.

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Gross income, now let us talk about 2012 and 2012 has slightly less than 300 billion, 289 as gross income in 2014. We're getting to more than three times the net income.

## **Libano Miranda Barroso** {BIO 4670536 <GO>}

Thank you, Emmanuel. What about 2015, what is the outlook. The outlook is that we do have opportunities both in the core business and also in new cycles to growth as the company. On the left hand side of the chart, we can see we have a potential to enhance our own proprietary competitive advantage.

First, higher scalability. Today we have scaled both in purchase and also logistics and also in our group of stores and it also applies to our sales force. And therefore, we manage to briefly rollout our decisions and implement a very fast new processes. These processes bring more operating efficiency and also improve our capacity to perform. Some examples, we used to have about 24 deliveries across per day. Today we are close to 28 deliveries per truck, per day.

Therefore being more timely and also reducing the number of figures upon delivery and this has an impact on quality, cost reduction and with high use of technology, management and remote tracking. Our brands are seen as leading market -- leading brands in the Brazilian market. We are constantly investing to make these brands more unique, they stand for truck and also show innovation.

Our solid cash position as Emmanuel showed us before, we have a need for working capital which is negative. We have a cash position of BRL4.4 billion and this stands from strong capital discipline, grow over top quality and cash generation. At the end of the day, we have opportunities to invest and become more competitive.

From now on and also speaking or addressing the right hand side of the chart, we want to keep on -- go in for more competitive edge to enhance our profitability, but we also understand that margin levels achieved already unique in the market. Both compared to any local player or an international player and also additional gains that will be converted into competitiveness. So we can become -- in order to allow customers to be more royal to our brands.

And in order to have concrete growth, this new cycle is known as Crescer Mais growing further. It is a project with a series of perspective, but first we want to unleash Pontofrio's potential. If I look at the sales or growth was 6% and Crescer Mais, Pontofrio was negative at 2.4, we have -- if we take this from the same-store sales base, it is marginally positive for Pontofrio. So this gives us a chance to work very accurately at the point of sale. So we can keep an eye on assortment, quality, finally delivery, store layout, store remodeling. So we have a very well defined projects to be implemented in 2015. Any thus change Pontofrio level particularly by year-end and also have an impact in 2016.

What about strategic categories? We have two main categories. Those are considered to be the categories, that we are leaders with. I'm referring to furniture and smartphones or mobile category. Speaking about furniture. Now in the fourth quarter, we launched

revamped stores projects. In Q3, we started with planned kitchens, and in Q4 -- in the third quarter we had modulated kitchen and in the fourth quarter, planned kitchen and bedroom.

So, this is the aspiration of emerging classes. They want to have tailor-made furniture and kitchens. We already working on it for a unique price with our own financing conditions. It was a big hit, we had a pilot project in 11 stores for 2015. We want to expand and have the rollout of these initiatives. That's a very diluted interest rates. So we understand, that we have to be the forerunners. We have to drive the sales of the category in all our stores.

Speaking of smart phones. In November, we opened 10 stores, standalone stores that are fully dedicated to the sale of smart phones, tablets, accessories and the referrals. And in innovative manner, we've brought to Brazil the multi-operator concept. In other words, we have the four mobile telephony operators in Brazil in our stores. The customer gets into the store, buys the device and we support consulting with the best plan for the customers' needs and he walks out of the store using the mobile phone both for post and prepaid in the 10 stand-alone stores, and another 10 store in store format, that really encourage us, to think about the rollout out of this model also for 2015.

We maintain our guidance even though we delivered 88 stores last year or 18 above our forecast of 70. We maintain our expectation for 70 stores for year 2015 and we prioritize particularly at the Northeast, Midwest and North of the country. As that number show, we've been growing far more in these regions, vis-a-vis our number of stores or existing stores, we will keep the same focus. But we also strengthened our footprint in the South and in the Southeast.

What about multi-channel? We can see that the strongest brand in world retail, precisely those that allow to integrate the customer purchasing condition paid in conventional stores or online we'll be constantly investing in this experience.

So customers don't have any lack of continuity and we want to be perceived as we actually are, as the brand of choice and the point of contact. No matter if he buys online and has the store pickup or vice versa. We increasingly have more initiatives to improve synergy among different channels.

To conclude, on top of what we have already performed and achieved in previous years. We created an executive department focused on financial services, focus on loans, additional services like insurance, as a major driver to maintain our unique brand providing access and financing with our own portfolio to our customers.

And we'll keep on focus on implementing strategies for efficiency and processes. We understand that, with more IT in the processes and management tools, we'll be managed, brought the unit process [ph] to the company. And these things will be increasingly more converted into competitiveness to improve our market share, but without losing sight of cash generation and financial discipline.

I give the floor back to Marcelo Rizzi.

## Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

We can open up for questions now.

## Questions And Answers

### Operator

We'll now open the floor for questions. (Operator Instructions). Our first question is from Gustavo Oliveira from UBS.

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

Good morning, everyone. I have a couple of questions. Particularly about the growth scenario that you invest [ph] for 2015? You mentioned very well some initiatives like the furniture category or growth in smartphones? Assuming there was no rollout for these initiatives. And that's another question I have, how we perform in this, but what kind of same-store sales do you have in mind for this year? And could you give us an update about same-store sales in the first quarter and what about the rollout and if you do that work rollout of store in store format for smartphones and also the furniture segment, what is the increment in your sale?

### A - Libano Miranda Barroso {BIO 4670536 <GO>}

Hi, Gustavo. Thank you for your question, Libano speaking. Out of discipline reasons, we don't give a guidance for growth. On a quarterly basis and by the way you asked us about January and about the current quarter. January was pretty good. We managed to take advantage of seasonality in the month. It is the only seasonal event that we have the sale, the big sale in the second week and we were very successful with the right choice of our assortment and also the conditions provided to our customers, response was very positive. We still have to wait and see what will happen in February and March. These are months in which there is no seasonal event.

But I can tell you that we started the year well. For 2015, we see a chance of -- in addition to working on existing categories, we also see the chance and the opportunity to what actually we are strengthening our categories, that's what I mean, the most profitable categories, furniture for instance.

Like I said in the presentation, furniture is a category with differentiated margins, but we also need to innovate rather than keep on constantly offering similar products. But we maintain similar products, but our focus is also to improve what we already do and also innovate.

Innovation comes precisely from modulated and planned furniture from the store atmosphere, customers can get into some of our stores. We have two pilot projects. One of them in Cidade Dutra which is in the North -- South area of Sao Paulo and also in Santo Andre ABC region, and it have a full fledge experienced, the whole atmosphere is there

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for you, you can buy the decorated set and we can finance it to you. That's an example in which customers can make their dreams come true.

What about smartphones? Today, we are the leaders in some of the brands. For some brands, we are the greatest world sellers. As stated by LG for instance and we're also among the top in all leading brands in the market. Within managing to increase the volume with a lot of quality and we also provide services. So our mission is to sell services coupled with products. So mobile brings the operator, it's a lot of value-added items, they can have a one-stop shop and they can have the full purchasing experience.

So we have a micro vision, we see our focus on many micro actions that will make us totally unique. Compared to a macro view, when I look at the macro scenario, it only focus on GDP. Last year even though GDP was not announced or disclosed, we could only grow a multiple of the Brazilian GDP.

And this year, we have the chance to become even better. But we keep on focusing to win, well what we already do and also to bring uniqueness in these two categories, but also addressing all the others.

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

And in these categories Libano, do you still believe that you are finishing the pilot test. Are you ready for the rollout of these initiatives? How far along are you in these initiatives?

**A - Marcelo Rizzi de Oliveira** {BIO 21142716 <GO>}

This is Marcelo Rizz, Gustavo. Just to give you a little bit more color on our pilot tests. What is important about our two projects on mobile and furniture effect, in all of the stores where we implemented a store in store for mobile and for furniture, not only where we able to improve the share of these two categories in the couple of sales of the stores which is good, because these two categories having higher margin than the other categories. But we were also able to drive sales in the store, we got more people, more circulation of people. So the results were actually exceeding our expectations. We're quite excited to roll this project in 2015.

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

Okay. So you would be completing the whole rollout in 2015?

**A - Marcelo Rizzi de Oliveira** {BIO 21142716 <GO>}

Actually, no. We will be rolling the South over the next two years. We're talking about store in store about thousand stores. So in the coming years, we should be rolling out in the next three to four years.

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

Okay. Three to four years. That's clear now. Can you finance [ph] the store well despite about furniture, you have a partnership with Unicasa or will you be doing it alone on your

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own?

### **A - Marcelo Rizzi de Oliveira** {BIO 21142716 <GO>}

We have those models. We have our own factory Bartira, Bartira is the biggest furniture industry in Latin America, but unlike it is so segmented, that even being the biggest, it has no more than 4% of the Brazilian market. For furniture, one of most inevitable [ph]alliance that we offered is the so-called module furniture and it's manufactured by Bartira. We have customized furniture, which is a mix of Bartira and another supplier Unicasa. So we would have a combination between our own production and we chose only Casa as a partner, because in our view, they have excellence in the market with good governance.

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

Very clear. Thank you.

### **Operator**

Our next question comes from Mr. Tobias Stingelin from Credit Suisse.

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

Good morning, Emmanuel, Lebanon and Rizzi. In the beginning you said that January did quite well and Lebanon you said that last year you gained market share. Could you elaborate in terms of market share gain of last year, it is not so clear? And you said that you are going to disclose the data, so could you please elaborate more on market share gain?

And secondly, I want to understand how come have a CapEx of BRL190 million in the first quarter? And if possible, I wanted to detail the operating figures gross revenue and then G&A in the big lines just sort of we can understand a little bit better? Thank you very much.

### **A - Marcelo Rizzi de Oliveira** {BIO 21142716 <GO>}

With regards to market share, Tobias, with the information that we have, and this is data until the end of November, we gained almost 1% of market share from one period to the next -- from one quarter to the next. It's important to highlight that regardless of these structural actions that Libano described to our furniture category to unlock the growth for Pontofrio. Initiatives related to mobile as well.

The goal of the company here is to gain market share also in 2015. We believe that there are some -- there is some room for an operating improvement in 2015. We'll also benefit from the actions that we -- from incidence that we implemented in 2014, which will enable us to be comparative in 2015. Therefore the goal intends to continue to grow our market share.

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

I'm sorry, but the market share includes an adjustment that makes it just for electronics, home appliances, is that include furniture?

**A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}**

This is Marcello Rizz speaking. This is market share in the specialized market just a break and model stores, not including e-commerce that's what Emmanuel mentioned. We increased by almost 1% of market share versus last year. In the first 11 months of 2015, data going until the end of November, 2014.

And if you consider retail survey, the quarter number was 3.5%, ours was 4.4% ex-CADE store. And the survey of (inaudible) includes the Internet's, so it's one way of testing whether we are gaining market share or not. But in the first quarter, considering Internet e-commerce sales, still our number was higher. And just to add to your two other questions, you had one question about intangibles in the end of 2014. This is the contract that we have with Zurich, and this is deferred revenue that we will have this contract that was entered, that was executed in the end of last year.

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

But this is intangibles in the CapEx?

**A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}**

Yes, you capitalize the right to exploit extended warranty. And you also asked about some adjustments, whether they are cash or non-cash in gross profit and G&A? What I can tell you is that BRL940 million of cash generated, net of positive and -- is net of positive and negative exceptional event.

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

Okay. I will try to understand this better later. You also announced the creation of this new financial position. How are you addressing delinquency, are you changing anything? Do you intend to improve the collection of past due receivables. Could you tell us how you see the profile of Brazilian customers and consumers?

**A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}**

Well, Tobias. In our financial statements, in terms of delinquencies, quarter-on-quarter it remained stable. As for collecting past due receivables, we are increasing in this number quarter-on-quarter, we don't disclose those number, but we have managerial data indicating that collection is improving. We changed the collection companies and we are paying them for efficiency.

And as Libano mentioned, this year we have a Vice President that is focused on loans. We are trying to automate all of the intelligence fees [ph] and how we grant a loans to our consumers we are segmenting by region. In other words, we are using a lot more intelligence to keep these losses under control and have a higher rating portfolio.

And we are being a lot smarter in our collection effort, these are the main objectives for 2015 to optimize the risk of delinquency or reduce mitigate the risk of delinquency and optimize the post-payment recoveries.

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

Thank you very much.

**Operator**

Our next question is from Irma Sgarz from Goldman Sachs.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

Good morning. My question is about regionalization. In the opening remarks and in the press release, you said that you're just about to implement or use intelligence market by market. I assume you're talking about the new stores, but to what extent is already been implemented? And should we expect more gross margin or is it going to come through sales and what are the main lines to be affected by this strategy? Should expect to see something in 2015 or only '16?

The next question is about Pontofrio. I could said before you have a plan that might have an impact by late 2015 or even early 2016. How much CapEx do you imagine that will be required to perform these changes like switching the banner or upgrading into store atmosphere? I believe that our expenses and also CapEx involved. So these are my two questions. Thank you.

**A - Libano Miranda Barroso** {BIO 4670536 <GO>}

Good morning, Irma. Libano speaking. Speaking of regionalization, we had already started doing that in previous years and now it is becoming even more important in the last quarter of 2014. And we're just about to read the benefits, now over to 2015. What are the events? We used to have a very strong concentration in DC in Jundiai. And over time, we have been more regionalized in our inventories in other places like Camacari in Bahia (inaudible) and we plan to open DCs this year. We already opened one in the Northeast and others will come in the Midwest and Northeast. And with a use of IT, intelligence and suppliers, deliveries will be more regionalized in our DCs.

As a result we shorten the lead time to the customers and at the end of the day, we can streamline our inventory levels. This regional distribution allow us to have more products available to a customer at the stores. And through studies that we've been carrying out, as you mentioned the key thing is cost realization -- cost utilization. Consumer behavior has changed, it is not only focused on income brackets.

**Operator**

Ladies and gentlemen, please proceed.

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**A - Libano Miranda Barroso** {BIO 4670536 <GO>}

Social bracket, see now we have high technology items sold in regions and based on demographics and socio-economic profile, they would not come out naturally. So better knowledge of customer behavior allow us to have a clustered approach and also behavior approach.

Customers that are coming to the market for the first time, other customers who have been before and are emerging, others who were switching from emerging to consolidation in the socio-economic profile. And there are other regions that are appointed destination so to speak. They are closer to big urban centers or transportation centers. At the end of the day, there is intelligence focusing on behavior and we also have products and services, pricing and more regionalized conditions. This will be clear over the year. In our point of view we will have benefits margin wise and these benefited margin will once again be re-invested in competitiveness. So we can feed the cycle or the loop again. We don't expect to have margin expansion now. However you wanted to increase our volumes for competitive prices.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

Perfect. Thank you. My second question was about Pontofrio and CapEx?

**A - Libano Miranda Barroso** {BIO 4670536 <GO>}

Great, Pontofrio. In Pontofrio, we see the opportunity to shorten the sales gap, which was presented in which causes by year growth by 6% per year and Pontofrio minus 2.4. When considering CADE stores, that shut down the majority Pontofrio, it is marginally positive. So, we have about six percentage points of opportunities to shorten the gap.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

What about CapEx?

**A - Libano Miranda Barroso** {BIO 4670536 <GO>}

CapEx is not significant. However, combined with our actions of management knowledge, regionalization, survey, store layout improvement and remodeling, then we'll manage to improve and shorten the gap. And we don't have significant CapEx volumes related to such initiatives. They are within our forecast, what really changes is how we do it, how this will be implemented over the year.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

Thank you, Libano. Now just coming back to the opening comments about regionalization. You said, you would have more distribution centers in these regions. If this already considering CapEx account, I believe there are initial expenses when you start opening a new DC, which is not at full capacity. Any non-recurring pressure on margin over 2015 due to this strategy? Thank you.

**A - Libano Miranda Barroso** {BIO 4670536 <GO>}

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Irma, there is no pressure on margin. Our strategy is always to be as it like or fleet structure or build-to-suit structure, we do invest to build the DC, but with no pressure on margin. We expect to open DCs in Brasilia, Pernambuco -- Brasilia, Pernambuco, Arena and Rio. In order to improve distribution regionalization, but without no weight, any weight in margin quite the opposite, the reason offset and we also have minimum capital.

At transportation also associated to the opening of these DCs. We start transferring between DCs, this cost has not directly associated cost, but this does offset the regionalization efforts.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

Thank you.

## Operator

The next question is from Guilherme Assis from Banco Brasil Plural.

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

Good morning, everyone. Thank you for taking my question. Actually I have two questions. Focusing now on 2015 and based on results in 2014, what may we expect to the margin dynamics both gross margin and also the EBITDA margin? I understand you made several efforts that were implemented over 2014, and lead to a gain in the gross margin, I think delivery fee, assembly fee and AC [ph] CNova fee. May we also expect, if we consider the more challenging macro scenario that you managed to maintain margins, just as we had in 2014 or any transfer of the gains that will be converted into prices so you can be more competitive.

And referring to the gross margin. As to the EBITDA margin, that of non-recurring effect, you have gains of 30 bps year-on-year. I'd also like to understand, if there is any more room for further gain and what about the fragmentation dynamics depending on the topline and additional reductions?

**A - Emmanuel Eric Lemaitre**

Good morning, Guilherme, Emmanuel speaking. First of all, the growth in the company's EBITDA, the growth in percentage points actually growing from 1.7 point, 160 basis points. That's for 2014 or 2013.

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

Second point, what about the outlook or profitability for 2015?

**A - Emmanuel Eric Lemaitre**

Here we consider we reached a profitability level which is very high, very close to double-digit EBITDA the percentage of our sales. The company's growth although 2015 will be challenging, we consider that we do manage to keep on delivering.

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

The same kind of result, it will be something in the same level of result achieved in 2014 and why is that?

**A - Emmanuel Eric Lemaitre**

That's because, there are many processes that changed at a company level over 2014. Over 2014, many improvements were implemented in the company's operating processes. We'll be able to address the annual impact of the improvement. Like you said, we have associated the revenue that are not only applicable to good revenues. They started early in the year, so we have a favorable impact of annualization of these expenses in 2015.

And we also saw new opportunities in 2015 to optimize our operations. And if you combine all that, we do aspire to re-invest in sales price, in order to remain competitive in 2015 and therefore deliver at least the same result performed in 2014.

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

Thank you. Just a follow-up question. What about the loan of credit policy, there was growth in the fourth quarter, from third-party cards and payment books there was a slight drop, 90 bps in the sales stake. Is that related to your loan policy or do you think it is a consumer demand that is more refractory now or the installment or payments approach?

**A - Emmanuel Eric Lemaitre**

Guilherme, in the fourth quarter, it was a seasonally impact from Black Friday, we have faster sale to consumers. So credit cards go up vis-a-vis the payment for that seasonal effect. If you look at quarter-on-quarter, we expected to be at normal levels about 15% for the payment book. And for the loan policy you are maintaining the policy right. You're not taking any different measure, in order to be protected against any potential increase in delinquency. No, we never changed the policy, but we're trying to improve our efforts in recovery.

And what we said before, we will have tools over the year that will allow us to optimize credit granting to consumers.

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

Okay, great. Thank you.

**A - Emmanuel Eric Lemaitre**

Thank you.

**Operator**

Our next question comes from Mr. Ricardo Boiati, Bradesco.

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**Q - Ricardo Boiati** {BIO 16528742 <GO>}

Good morning. I have two questions. The first is regarding inventories that I would like to understand if the increase in inventories is simply related to sales performance or is there any tactical move here to perhaps anticipate some possible price increases, any tactics behind that?

And my second question is regarding contingencies regarding fiscal fee credits. I would like to know, what kind of risk the company see regarding this contingency, do you have a provision for it? In case you get a non-favorable ruling at card. Is there any possibility that the company will perhaps a provision for this fiscal fee credit dispute?

**A - Libano Miranda Barroso** {BIO 4670536 <GO>}

On your first question about inventories. We increased our inventories in the end of 2014, but it was a tactical move. We wanted to prepare for January sales, we mentioned that in January, we had a good month and among other things, it was because, we had an inventory position that we set up in the end of December. And this is why we wanted to be prepared for January. We also have some additional purchases for some seasonal products particularly air conditioning equipment. So that we can offer to our consumers, products adapted to the heat waves that we had.

And that's why we had an increase in inventories. No lack of control here and so forth these (inaudible) as you mentioned, we had a first quite a ruling and this topic will be still discussed at length. We consider that we have a robust legal position. We do not see any need in the short to mid-term to have provisions for this.

**Q - Ricardo Boiati** {BIO 16528742 <GO>}

And why are the news that you read in the press do not -- does not reflect to Via Varejo?

**A - Libano Miranda Barroso** {BIO 4670536 <GO>}

This will have no impact on Via Varejo. As Emmanuel said, we understand that we are totally compliant. There is no need to provision for it in the short to mid-term.

**Q - Ricardo Boiati** {BIO 16528742 <GO>}

Thank you.

**Operator**

Our next question comes from Andrea Teixeira, JP Morgan.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

Hello. Thank you for the opportunity. I just would like to understand more sales and the sales mix. And I would like to understand this agreement and I want to understand about click and collect. When will the company be betting more on this? That's my first question.

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And my second question is about mix. What kind of mix should we expect, because I guess at this year, because of mobile and because you're selling a lot less, white wine goods. How should we understand what you talked about, behalf investing more in these categories, because the company has achieved its margin targets, and perhaps you want to attract more people to these stores and increase your volume of sales.

So, I have basically two questions, more regarding the brick and mortar stores and what kind of behavior we should expect in terms of a mix? I want to understand whether this could still be a positive surprise in a year, the promises to be challenging in terms of sales. And my second question is about click and collect, because if I understood this well, inventories are important with click and collect. You would get sales from Via Varejo and not Cnova, and I just want to make sure I understood that part?

### **A - Marcelo Rizzi de Oliveira** {BIO 21142716 <GO>}

Andrea this is Marcelo Rizzi. Regarding click and collect, we started two weeks ago, a pilot test and partnership with Cnova. We have four stores that we enable for click and collect if you go to our website (inaudible) you can see these stores. They are all located in Sao Paulo. And this is all Via Varejo inventory, so if you buy Via Varejo has the margin for the goods as well. This is again a pilot test will analyze the results and the performance to see, if we're going to expand this program. As far the category, so we had a positive surprise in the end of last year's quarter with a white line goods recovering some ground.

And this year in January white line goods again showed a recovery compared to January of last year. So that was a very positive surprise because white line suffered in the first half of last year, because we're selling (inaudible) TV as because of the World Cup. So we saw a recovery of electronics, home appliances, refrigerators and we are quite excited for this year. So we again implementing a number of initiatives to bring more people to this store. Well again furniture, mobile categories this is attracting more people to the stores. We are also analyzing store conversions and factors that can improve the stores to a conversion better product mix, better pricing. We are analyzing everything and we will be implementing initiatives along 2015, to assess our ability to convert. And to resolve all of the problems that we identified in terms of improving the full of people in the stores.

### **Q - Andrea Teixeira** {BIO 1941397 <GO>}

Marcelo, going back to click and collect, this would be Via Varejo sales whether conversion turnover. What kind of agreement we do have there. And going back to the margin, how should we expect margins for this year, margins increasing, flattening and I'm talking about gross margins and EBITDA margins?

### **A - Marcelo Rizzi de Oliveira** {BIO 21142716 <GO>}

Okay. So just to finalize the click and collect question. So this is a Via Varejo product that was sold through the website. We should compensate Cnova, because it is a channel where we do not operate. So there must a fee for Nova. We are still discussing the compensation model, because again this is the pilot test we want listen, how it goes. But if it's a product, the clients goes to a store and we can offer the long tail of Nova and



Nova could compensate us with a fee, because it was -- we also drove customer's to Nova store. So again, we are still discussing this smartphone [ph].

First, we need to evaluate the results for the pilot test and then discounts the compensation model.

## Operator

Yes. Please go ahead, ma'am.

### Q - Andrea Teixeira {BIO 1941397 <GO>}

I'm sorry. I just want to understand how long will the pilot tests last?

### A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

We haven't got a finalized deadline to end the test. In time, we'll give you more information about this pilot test.

### Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Thank you.

## Operator

Our next question comes from (inaudible).

### Q - Andrea Teixeira {BIO 1941397 <GO>}

I'm sorry I just need to complete prior question. In the group, we are discussing the click and collect project. Especially with plans, because in fact they have a very expand network of proximity stores. So, in the group we have practical examples that will allow us to understand quite well. What is the necessary structure what kind of processes we have to implement. So we will use the experience of the group. And Emmanuel about the margin, just for the benefit of the analysts that are following the call, we want to know whether you're happy with the profitability level that you have, can we expect an improvement in the margins or can we expect them to remain flat?

### A - Emmanuel Eric Lemaitre

What I can tell you is that, with the new effect that we will be analyzing from revenues which are not related to goods. We expect an increase in the margin, but we are not focused on increasing the margin because we believe that we have achieved a margin target which is quite high. We don't see here an opportunity to increase this margin significantly. So for 2015 we will be working with the same level of margins that we saw for 2014.

### Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you very much. And what about this ICMS effect credit, they are recurring, right?

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## A - Emmanuel Eric Lemaitre

They are not recurring. But in Brazil, we always have fiscal tax credits. It's hard to say whether they recurring or not, but we've had a higher volume of fiscal credits than in prior year. It doesn't mean that we won't have tax credits for 2015, we always do, but 2014 we had a higher volume than prior years.

## Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you very much, Emmanuel and Marcelo.

## Operator

Our next question is from (inaudible).

## Q - Unidentified Participant

Good morning, Libano, good morning, Rizzi and Emmanuel. Thank you for taking my question. The first question is about energy rationing. We wonder if you have any study about impact on sales, and what are the quantitative effect. If you don't have a number to give us, so we could understand that impact could at least share the impact of sales related to energy rationing back in 2001?

And the next question is about the portfolio delinquency level, you told about the structure, but we would like to have an idea about the level of the current delinquency level? Thank you.

## A - Libano Miranda Barroso {BIO 4670536 <GO>}

Philippe, Libano seeking. Thank you for your question. I will answer the first part. It is our understanding that we have low energy consumption, basically that's for ACs. If we have a shortage, we have no breaks and the checkout operation, it can perform for an additional time. As to back office and intelligence for the company, including systems and planning this is well protected. We have generation and we have the back up to perform that. We are not working on probabilities, we don't have a scenario of event, but we understand that if we have a problem considering our geographic distribution, it's hard to consider a simultaneous negative impact countrywide.

Any impact would be more regional base, but we understand we have a good level of preparation. We are not working on any forecasts about the intensity or the impact on sales. But we work with socio responsibility to lower consumption in IT and switching lighting for something more efficient, having more LED technology and also working with suppliers, so we can have increasingly more energy competitive products to supply to our customers. And I think it's a good summary.

And I'll give the floor to Rizzi to answer the second part of the question.

## A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Just adding for Libi, we have already started to talk to the industry, to map products that are more energy efficient and then they can start promoting a switch and the national campaign if necessary. We already have a plan, we'll start. Sure we have any problems with energy rationing, power rationing. Could you repeat the second question, please?

### Q - Unidentified Participant

The second question is about delinquency level?

### A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

The level of delinquency, if you check our earnings release, it is flat on a quarterly basis. There is a seasonal effect and our level of recoveries are still increasing. I wouldn't say we're comfortable, but that's a concern for us delinquency, however this is under control through to our internal controls department. Thank you.

### Q - Unidentified Participant

Thank you.

### Operator

This concludes the question-and-answer session. I would like to give the floor back to the company's management for the final remarks.

### A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you all for joining us in our assessment for year 2014. 2014 was a challenging year, but we managed to work well on our point of uniqueness, our diligence and increasingly generate operating efficiency, and also improving the quality of the services provided to our customers with a lot of financial discipline. And we see 2015 as a year with plenty of opportunities, we are not focusing only on the macro scenario. We can see that in the current scenario, we have plenty of opportunities to further increase the quality of our services.

And also focus on categories in which we have a differentiated leadership and better margins. And also be the key players in the furniture and mobile items and enhanced performance in Pontofrio, shortening the gap between Casas Bahia and Pontofrio and pursuing more and more market share with quality and cash generation.

Thank you all for being with us. See you next time.

### Operator

This concludes Via Varejo's conference call. The Investor Relations team is available to answer any other questions you may have. Thank you all for participating in this call. Have a nice day.

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