Q2 2014 Earnings Call

Company Participants

- Libano Miranda Barroso, Chief Executive Officer
- Marcelo Rizzi de Oliveira, Investor Relations Officer
- Vitor Faga de Almeida, Chief Financial Officer

Other Participants

- Andrea Teixeira, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Joao Mamede, Analyst
- Robert Ford, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for waiting. Welcome to Via Varejo Conference Call to discuss the results for the Second Quarter of 2014. This event is also being broadcast via webcast, and it can be accessed at www.viavarejo.com.br/ir, where you'll find the respective presentation. The slide selection will be managed by you. There will be a replay facility for this call on the website.

We would like to inform you that the company's press releases about the results of the companies are also available at their IR websites. This event is being recorded and all participants will be in a listen-only mode during the companies' presentation. Afterwards, there will be a question-and-answer session, when further instructions will be given. (Operator Instructions).

Before proceeding, I would like to 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's management, and on information currently available to the company. Forward-looking statements are not guarantees of performance, they involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future results of Via Varejo and cause 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 19111391 <GO>}

Good morning, everyone and welcome to Via Varejo's conference call referring to the results of second quarter of 2014. To one hour, we will have a brief presentation of the results by Libano Barroso, CEO and Vitor Faga, CFO. Afterwards, we will be opening for questions from the audience.

Libano, you have the floor.

Libano Miranda Barroso {BIO 4670536 <GO>}

Good morning, everyone. On page two, we will be talking about the main highlights of the second quarter of 2014. A quarter that followed the change that we proposed ourselves when we launched the stock of the company in December last year. And we showed our commitment to more and more management company, as an asset like company, seeking balance between growth and profitability.

As you will see, reaching net revenue of BRL5.5 billion, representing an 8% growth on a year-on-year basis. Once again, we exercised the benefit that we had in our economy of scale aligned with our suppliers and this was translated into a gross margin of 31.4%, representing an increase in our gross profit of 8% on a year-on-year basis. Another important point is the search for operating efficiency of being more and more effective with all the funds of the company, and this was translated into an adjusted EBITDA margin of 9.1%, a 21% increase, and an improvement of 1 percentage points when compared to 2013.

And finally, financial discipline. Financial discipline in an asset like company means looking for efficient management of working capital and also financial discipline in the allocations, both of funding and investments. And this is translated into an adjusted net income of BRL192 million, representing a 27% increase, and with an expansion of 0.5 percentage points on a year-on-year basis.

Now, I would like to give the floor to Vitor Faga, our CFO.

Vitor Faga de Almeida {BIO 16103413 <GO>}

Thank you. Good morning, everyone. And let's go to slide number three. Here we can see the evolution of our net sales and some important highlights about this indicator. You can see an 8% growth in net sales on a year-on-year basis, and this shows an acceleration of our sales when compared to the first quarter of this year. And this supported, not only due to the higher seasonality, be it for -- because of the Mother's Day and the World Cup, but also by the expansion process of the company, the organic expansion that we are carrying out. And in the last 12 months, we were able to open 45 new stores, and in the last quarter, six stores, all of them with the Casas Bahia banner. It is important to emphasize the commitment to growth that the company has. Seeking the next few quarters, an ongoing growth, not only from the viewpoint of sales but in the existing stores, but with a very aggressive expansion plan.

On the right of the slide, you can see the evolution of our net sales growth, 8% net sales growth. As you can see the margin here, 31.4% in the second quarter of '13, and the same level this year, 31.4%. And this gross margin was achieved in a period of seasonality. Once again an expansion of sales and this shows how important scale is in retail, and especially in the consumer electronics area in Brazil. And finally, 0.6 percentage points growth vis-a-vis the first quarter of this year, which means that in the second quarter, we were able to achieve an acceleration of our sales and the margin expansion as well. And this shows the competitive advantages on the parts of the company, and how they are relevant in this growth process.

Now, let's go to the next slide. And here, we see the evolution of the EBITDA margin, reaching in the second quarter 9.1%. As you can see the adjusted EBITDA here, very much based on efficiency gains. Here we see a dilution not only of SG&A, 4 percentage points, some 2.6% of the revenues to 2.2 on a year-on-year basis. Because of the reduction in our Corporate and IT and Telephone expenses and also selling expenses, entering to a series of factors we were able to dilute our expenses, which were at a level of 20.6% and they represent 20.2% now.

And the increase in EBITDA margins supported by the good operating performance and the search for efficiency on an ongoing basis is fundamental, so that we may keep our competitiveness and our returns and profitability for the company. The company has been focusing on our initiative in this direction, always seeking efficiency.

Now slide number five, we see the evolution of our working capital. And as we said in the previous quarters, we show you here the evolution regarding inventories and suppliers and the gap between them. In line with the evolution that we have been tracking in the last two quarters, with a positive breakdown in terms of inventory and suppliers. And this improvement is totally associated to our commitment to optimize our finances and in terms of obtaining a return on invested capital for the company, and there was a positive evolution and reduction in the inventory levels from the end of the first quarter to the end of the second quarter.

The company adopted a strategy to increase inventories at the end of the first quarter in order to support the growth and the higher expected sales volume in the second quarter, due to the seasonal events, the World Cup and Mother's Day. And this was the very right strategy followed by the company. We realized the volume of sales that we had forecast and we closed the quarter with a reduction in our inventories 360 million [ph] vis-a-vis the previous quarter. This is a very important point that should be stressed. This is a very successful strategy and brought very good results to the company.

Now, going to slide number six. Cash generations coming from the increase in margin and from the optimization of our working capital. Cash and cash equivalents, as you can see here, over 700 million vis-a-vis last year and this reflects 657 million, an increase in net cash, increased on a year-on-year basis. Right now, it is important to be sound financially and to have the adequate capital structure, so that we may tap into gains and opportunities in the market, stemming from a very sound capital structure and financial expenses.

Lastly, we had an increase; they went from 2.7% of net sales in the second quarter last year to 3% this quarter. And this is a consequence, a direct consequence of the increase of Selic rate, interest rate. The company has a percent of sales that are made in installments and we discount of receivables that are generated by these sales and this generates financial expenses, and this is associated to the Selic interest rate. So, over 45% of the CDI in the period. And by means of financial management and a more robust capital structure, the company was able to optimize and have a lower impact on our financial expenses than evolution of the Selic rate.

So you can see here, financial revenues plus 59% on a year-on-year basis, and financial expenses plus 30% vis-a-vis last year. And on page number seven, we see the evolution of the adjusted net income from 3% to 3.5%, as the direct consequence of the factors that we have just described. The increase in net revenues and margin, the maintenance of the gross margin at 31.4%, and efficiency gains as well. Be it the SG&A or be it -- in G&A, or be it in selling expenses and this lead to an increase in the EBITDA margin, and an increase in the adjusted net income.

I would like to show the competitive advantages, mainly those related to the scale of the company, and this has a major impact on our business strategy and the way the company has been making decisions and seeking all ways to balance this equation between growth and profitability. So that we may insure the adequate value proposition for our customers and also the adequate return on the invested capital to our investors.

With that, I would like to give the floor the Libano, who will make the final remarks.

Libano Miranda Barroso {BIO 4670536 <GO>}

On slide number eight, we talk about the outlook for 2014. And our message is to continue our strategic plan, and mainly, we believe in a qualified growth process. We are going to accelerate our expansion endeavors, and we finalize the opening of 210 new stores in three years and we will be opening 70 new stores in 2014. In the last 12 months, we opened 45, so we have already opened 12 now, and we will be opening more and they are all included in the program of implementation.

And the points have already been defined, the locations have already been defined, and so the whole process is already underway. And this means the biggest growth platform in consumer electronics retail in Brazil, and with discipline and profitability, we have an ongoing search for the location and we follow very strict criteria for qualification and we want this additional portfolio of stores to create value and to add values that may feedback on our scale endeavors, further increasing our competitive advantages.

And our competitive advantages have to do with it ongoing improvement of our operating performance. And this is valid for all the areas of the company and also financial performance, and this search for ongoing improvement has to do with a work plan. And our objective is to reduce the cost per unit for the company, so that we may transfer benefit to price competitiveness and expansion. And the driver for profitability and for growth will always be under our control, in our hands, and we will be working very selectively with these drivers, looking for competitiveness and for the adequate prices.

If the implementation of the multi-channel strategy is already a reality, we already have a program to tap into these synergies. And we intend to expand this, so that the client, they understand that our brands, whatever the channel maybe, are the priority in terms convenience and price and quality of service delivered.

And lastly, we will be looking for additional business opportunities thereby leveraging our very sound cash position, mainly in categories of special focus for instance in furniture and on consumer electronics, mainly telephony. And also, going back to the white line, because in the first half, in the first quarter, the focus was on customer electronics or more specifically cellular phones and TV sets. And now, we already see the right environment to focus on telephony and also on furniture.

Now, we would like to open for questions from the audience.

Questions And Answers

Operator

Now, we would like to open for questions and we ask you to please ask all your questions at once. (Operator Instructions). (inaudible) would like to ask a question.

Q - Unidentified Participant

Good morning, everyone. I have one question Vitor, about credit, your credit operations. I don't think there is a very big difference there in your provisions, but I would like to understand how you see this? Are you going to follow the same policy or are you going to have a more straight policy?

What about the percentage of sales that are financed directly by you? So, could you please give us some visibility regarding delinquency and yesterday for the first time ever, we saw (inaudible) showing deterioration for the first time ever in their credit card operations.

And secondly, I would like to understand this issue of market share, because you used to talk about market share and part of your target. Is this so, I would like to know, if you could share this with us about your performance vis-a-vis your market share?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Good morning, Fabio. This is Vitor. Talking about our credit operations and the evolution of the same, what we have been seeing is a participation of the installment book that is quite stable over the year. And the slight increase vis-a-vis the first quarter, but we are operating with 14% of our sales, by means of our credit operations with the installments book. So you can see this very clearly in our release, so it's stable.

From the viewpoint of provision, we do not see any deterioration in the recent portfolios that are not related to seasonality. There is an impact from seasonality in the last few months due to the higher volume of sales, increases for instance, at the end of the year. And when you look at the loss ratios, you see the -- a positive evolution, but you have to take into account the losses that come from seasonality, which is expected. So we see no deterioration whatsoever in our loan portfolio. So, we track these indicators very closely in terms of 30 and 60 days past due et cetera.

And up to now, we have not seen any deterioration whatsoever in these levels. So we are maintaining our credit policy, but of course, this is related to the macro scenario of course, so we would adjust our strategy in case the macro scenario leads us to do this.

Q - Unidentified Participant

It's quite clear, your monetary 60-30, 60-90 days past due and you see no difference whatsoever vis-a-vis, what you had been seen Q1 or in 2013.

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Q1, okay, but it is the seasonality that I referred to. So the curve is the same as we had last year, okay. This has to do with the end of the year or Christmas et cetera, and the curve is the same as the one that we had last year, due to seasonality.

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

Here is Libano, Fabio. In the second quarter, we prepared ourselves with the inventory volumes and the negotiations that we carried out with our suppliers, so that we had a strong second quarter as you can see. And at the end of the quarter, our inventory levels were as expected and translating into market share gains. This is the figure that we have with the slight slack [ph], I would say, but up to May we have this, and we had market share gains up to May, this is what I can tell you, because there is a delay in this.

Q - Unidentified Participant

What about your expectations? You said that the first quarter would be worse and the second quarter would be better and then, the third quarter would be worse. Today, we are already around mid-month and is there anything you can tell us about your expectations? Libano talked about the white line, that didn't have a good performance and that you're going to focus more on this now? So, what can you share with us?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

We prepared ourselves to have two quarters during which we would be looking for a balance between profitability and sales. The first and the third quarter, and two quarters where we would have also balance but more focus on sales and profitability. The second and the fourth quarter, mainly because of the seasonal celebrations that occurs in these quarters. So this was a good quarter, we are pleased with the execution of Q2.

It was according to what we expected and the only point outside the curve was the number of holidays during the World Cup. We believed that between holidays and local -- we would have about four full days. And in fact, in our evaluation, we had 12 holidays over at the World Cup season. But the main impact of the Cup, on the figures was on the figures of the second quarter, and are please in spite of that and we were able to execute our strategy. And for the second half, what we can tell you is that we will continue with our focus on profitability, our focus on achieving a year with growth in our sales and expansion in the number of stores, and the expected profitability levels. So, nothing has changed regarding our expectations.

And year-on-year, the sales volume is as expected, but I think it's a little bit too early to tell you about the trend for the second half, Fabio, but nothing changes. In terms of all the scenarios that we carry out and they do not compromise our focus on profitability and what we expect in terms of profitability for the remainder of the year. Thank you.

Operator

Emma Gad [ph], Goldman Sachs would like to ask a question.

Q - Unidentified Participant

Good morning. I would like to go back to a point that you mentioned before about the opening of new stores for 2014. We talked about -- you talked about 70, and this means about 30 per quarter for the second half of the year. So could you please confirm whether you are comfortable with this estimate?

And could you please clarify one point about the closing of stores in the last quarter, about five stores per quarter been closed. So, are these just like one-off events or are you going to continue to close stores in the second half of 2014, and also 2015 and 2016?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Emma, this is Vitor. Yes, we are comfortable with the opening of 70 new stores this year, and as we usually see in retail, opening of stores are more concentrated in the second half than in the first half of the year. And this is in our business plan, so we are comfortable with the evolution of the number of new stores to be opened this year, yes. And this is not homogeneous, quarter-on-quarter, there a higher concentration in the last quarter of the year.

Regarding closing stores in the second half, we closed 32 stores as a consequence of the agreement signed with CADE. So this was because of this agreement that we signed with CADE.

And besides, we closed another three stores because of performance reasons. We track the stores individual performance very closely, and when we see that a store does not perform according to our business plan, and we do not have the outlook for an improvement in the profitability from these stores, we make a decision to close these stores. So, we closed three stores because of this reason in the second quarter.

It's very difficult to say anything about future stores to be closed, because of performance reasons. If we did have this, we would be telling you and we would be doing this, but we track this very closely. And it's very important to close stores that do not perform well, because of course there is an impact on the company's performance. And when you close these stores, the bottom line improves and the business as a whole improved, because it brings about benefits to all the remaining stores and for the company.

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

This is Libano. The growth that we planned and that is already being executed. We are going to seek by protecting and consolidating our footprint in the regions where we already have an important footprint. And proportionally to the number of existing stores, we're going to grow more strongly in high growth regions, such as the Midwest and the Northeast of Brazil.

Q - Unidentified Participant

Thank you. I understand the closing of stores having to do with your agreement with the CADE, but my question is the following. Was there a specific process that led you to close the stores that you closed organically? Not talking about the CADE agreement, I'm talking about the first and the second quarter where you closed a few stores? And was it only because of performance reasons, or is this an ongoing process should we count on the possibility of three to six stores to be closed every quarter? I would like to understand how we will get to the end of the year with 70 minus the nine stores that you closed or 70 new stores minus 20 maybe by the end of the year?

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

Emma, this is not an ongoing process, this has to do with performance reasons and there is a strategy to have an ongoing closing of stores now. And regarding CADE, it was legal obligation that we have to comply with, that was it.

Operator

Mr. Gustavo Oliveira from UBS would like to ask a question.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone. The first question has to do with your gross margin. I would like to understand the behavior of the gross margin for the second half of the year, taking into account two factors that maybe are new. First, the benefits from the operating agreement with Nova and Pao de Acucar, could this lead to this situation or a change in the margin or -- and the change in mix?

You sold quite a lot of televisions in the first half, and now you're going to focus on white line. What about the margins that you achieved in your white line? And along the same lines, I would like to know, if you could give us some details about the inventory levels that are dropping quarter-on-quarter. And however, these levels are higher than in the fourth quarter of 2013, and this could impact your gross margin. So do you feel comfortable with our inventory levels or do we risk any promotion efforts in the second half or the third quarter?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Thank you, Gustavo. Thank you for the question. And regarding our margin, we expect to maintain the level of our gross margin for the second half. It's important to achieve the balance between quarters and profitability, and maintaining the level of competitiveness. We expect to maintain the same level of margin, and you made a remark about the mix and it does have an impact on margins.

In the first quarter, the increase in consumer electronics, especially in two categories, in cellular phones and TV set, cellular phones with a higher than the average margin and TV sets with the margin that is below the average for the company. But even in this segment of TV sets, we had a migration towards bigger TV sets, and this brings about an increase in margin and a positive pressure on our margin for the company.

And looking ahead, we expect the relative growth in the other categories, white line and furniture, as you mentioned yourself. And these two categories, especially furniture, bring about a margin that is higher than the average margin for the company.

So we're working with a scenario, where we expect to maintain the level of our margin for the second half of the year in spite of the different mix. Because some of the items push the margin down and some other items push which the margin up. So regarding synergies, the outlook for maintenance of the margins already includes the synergies that we have already discussed with the market. So the maintenance of our margins considers already the synergies that we have been talking about with you.

Regarding inventory and inventory levels, we have reduced our inventory levels vis-a-vis the first quarter, but as you mentioned yourself, the level is still higher than our year-end inventories. But we are totally comfortable with this level of inventories. And it's important to consider that there is seasonality in this industry, especially around the end of the year when your inventories are, of course lower, except the higher sales and we are totally comfortable with this level of inventories with which we close this second quarter.

In the first quarter, the inventories were higher and this was because of our sales strategies for the second quarter. We wanted to have this higher inventory level in the first quarter, because we were expecting more accelerated sales in the second quarter and we will continue with our strategy and we are comfortable with this level, yes.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you very much. It was a very clear answer.

Operator

Mr. Robert Ford from Bank of America would like to ask question.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. Good morning and congratulations for the results. You closed the second quarter with almost 2 billion in cash or BRL4.56 per share. What are your plans for your cash levels?

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

This is Libano. Good morning.

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

I think, Libano will give you more details.

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

We will always exercise our possibilities, according to a strategy of balance between growth and profitability. Keeping in mind and focusing on the market for opportunities, but also with competitiveness in cash positions gives us the necessary comfort to operate in the market, being competitive price wise and having the best and the biggest mix of products in the industry and also expanding on multi-channel basis. And this is by far the biggest growth in consumer electronics in Brazil. This is not a one-year plan, this expansion plan; this is an ongoing plan for in the foreseeable future.

Our cash position gives us the necessary tranquility to regardless of the scenario to be able to carry out our plans, be it in terms of the best partner for our suppliers, be it in terms of having the best offer products for our clients.

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Just adding to what Libano said, this strategy of being sound financially and maintaining our cash position lead us to tap into opportunities such as we have already been doing, tapping into opportunities to make our business more profitable, being more competitive and with a better competitive advantage. And one example that was very clear was the financial results of the company in Q2, in which we were able to mitigate the (inaudible) of negative impact of the increase in the Selic rate, with a very sound management on the part of our Treasury Department. Especially managing, be more efficient in our receivables discounts and payables as well. And this can only be achieved with -- and they substantially mitigated the effect of the increase in Selic rate over our financial expenses.

Selic went up over 45% during this period, and our financial expenses as a percentage of sales went from 2.73% [ph] to a 10% growth. So it was very important for us to make it clear. The benefits that we achieve with the sound financials of the company and also the competitive advantages and the possibility to optimize the results of the company.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. And I would like to ask another question. The market has a major concern with situations of TVs investments. Our TV inventory is adequate to our estimates for Q3, the level of sales that we expect and there was a major reduction in the inventory level of TV sets, of course as expected and we believe it is rather adequate.

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

We are not concerned with that, just to give you one example, there was a reduction of over BRL100 million in the specific TV set inventory during this period. And in our commercial strategy, this opened the perspective for new purchases. In a very favorable scenario in terms of buying new items sales, this is part of our commercial strategy. So that we may make our purchases in a more efficient manner, and with better conditions, so that we make drive our sales and transform this into competitiveness.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much, and once again congratulations.

Operator

Mr. Joao Mamede from Santander would like to ask a question.

Q - Joao Mamede {BIO 15265292 <GO>}

Good morning, everyone. And looking at the margin evolution from now on, there are some projects that you're working on that could mean quite a lot. And for instance, the collection of freight that you implemented this year. And asking the first question, I would like to understand, where you are in this project and what could still be increase in terms of freight collection? And what about assembly collection or charging for assembly, I believe that you will divide very good savings from this initiatives and you could increase your margin gain? So, could you please share this with us, what is your expectation for the implementation?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Sure. Vitor, speaking. Thank you for your question. You're right. We do have some initiatives, related to the sale, efficient sales, and they also have a positive impact on the company's margins. One of them is the collection of freight. For freight collection, we had a private study in late last year, and starting at the end of the first quarter, beginning of second quarter, we did a roll out of the freight initiatives to our stores thought out the country. This freight charge does bring results to the company and we do expect to maintain the level of the freight charge and this initiative will keep on running over the year. There is no reason why we should revisit their strategy. So we had a good reading, a good result of the pilot study and a rollout was very smooth so we keep it. In addition, today we also have another pilot study this time for assembly of furniture, we want to charge by setting up of furniture.

We don't know whether will be rolling it out to the whole country where as to still reading the pilot study results and then we can expand this initiative on a timely manner. So a broad rollout still depends on the results of the pilot study and the reading of effective initiative that just as we did with the freight charge, possibly we also have a positive charge for furniture set up for our margin.

Now what about the margins in the second quarter? Our strategy to maintain margins, also takes into account all these initiatives, considering the importance of our remaining competitive. We need our sales to be competitive. So it's important to maintain our margin levels, so we can remain competitive and then ensure the proper evolution of our sales level in the second half of the year. So this is the guidelines and the strategy we've been following. Okay?

Q - Joao Mamede {BIO 15265292 <GO>}

Perfect Vitor, thank you for your answer now. What about more details, I don't know how much you can share about the charge for the setting up during the pilot study for freight, it was BRL10 for consumers right? What about the pilot study for the charge of the furniture setting up?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

This happens gradually, today the freight is charged by BRL15 and this is on --about the assembly of furniture, we're still working on the tests. It's early to give any amount, because we are still reading and analyzing the right levels. But as freight charge, currently we charge BRL15.

Q - Joao Mamede {BIO 15265292 <GO>}

Perfect, just on that point. Coming back to CADE, could you give us an update about the stores that would not divested yet? What is the expectation?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

The conclusion of the sale estimate of the 49 stores are subject to CADE's approval. We are still awaiting for the results, so we can conclude the process. We closed 32 stores and we already disposed off 42, so the conclusion of the 42 is still pending CADE's approval.

Q - Joao Mamede {BIO 15265292 <GO>}

Excellent. Thank you, Victor.

Operator

Joao Carlos De [ph] from BTG Pactual has a question.

Q - Unidentified Participant

Good morning, everyone. I'd like know if there is any update about any development or updates in general?

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

Good morning. How are you? Libano speaking. Some of our areas will be disclosed by communication channels via material information and all the staffs will be announced or we cannot say anything, we are silent period about this topic. But in a timely manner, you'll informed of all the stats, which will be disclosed.

Q - Unidentified Participant

Thank you very much.

Operator

Andrea Teixeira from JP Morgan has a question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Good morning, everyone. Libano and Vitor, I have three questions. A follow-up question on the previous comments that Libano made about the outlook for the second half of the year, about consumer behaviors that you're seeing right now. What about the third quarter? Do you think there is a change for white line and do you think that smartphones and mobile phones are really offsetting this potential drop in the sales of TVs. And I know that you've published in the press release that you have credit very stable, credit demand is pretty stable.

Do you feel there is a stronger demand now and what about delinquency for payment books? This is my other question.

Consider that we've perceived an increase, so I don't know if it's a calendar effect or and the actual increase that will really remain. Now the second point, we are seeing a drop in inventory days. Obviously this is good, there is a positive side. On the other hand, it might impair negotiations for Christmas. Last year you had a stronger inventories that had good negotiations for Christmas last year. What about the renegotiation with suppliers now?

And thirdly, my third point is --well you mention about charge for freight and furniture set up. What about the EBITDA margin? It is very close to the target and Vitor just mentioned something about having some breathing space for that price target and also the logistics about you mentioned earlier in the year.

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

Hi, Andrea, Libano is speaking. Let me start addressing your comments on margin and sales. We don't give guidance for margins. However, we have a clear view of making the company profitable with efficient product mix or balanced negotiations balanced with the industry preferred channel to work on all our line of products with the industry. Our whole efficiency planning that has being carried out at a company, it stands for margin growth.

However, it is also a source of competitiveness with the funding so to speak, that we can exercise to be more competitive or being more or less competitive price wise and also to accelerate our expansion, so this is how we see our operating efficiency. It was relentlessly searched in SG&A, in COGS in all the company's cost. We want our company to be a linear and linear so we can deliver to our customers the best product, the best service under the best terms and quality possible and also for the most competitive price.

So this is how we see margin and profitability. As to sales behavior, it's too early to say anything Andrea, we just had 20 days since the beginning of the second half of the year. You mentioned TVs right? Compared to the last World Cup or after the World Cup we keep on having significant TV sales. Although there was a dramatic reduction in the inventory levels and Victor mentioned before for TVs more specifically. We have BRL1 million compared to the end of the first quarter, so we do have conditions for the industry to replenish our inventory and sell it fast. We managed to lower our inventory levels as we planned and funded with efficient working capital. For the second half of the year, we think it is compatible to our profitability plan. In other words, we keep on growing, expanding, growing our number of stores in the territory and also keep an eye on profitability and operating efficiency. I give the floor to Vitor so he can also answer your questions.

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Andrea, Vitor speaking. Just about the inventories, negotiation for year-end they start -- negotiations start on August-September and deliveries start September-October. So this inventory level does not bring any risk to our year-end sales this is according to our plan. So now, we do expect to see an revolution over the process. Actually this is favorable to us so we can negotiate better with our suppliers in the future searching for volumes from suppliers, they're also focusing our year-end sales. So as to inventories, there is no concern whatsoever, it is within our expectations and then we start.

Q - Andrea Teixeira {BIO 1941397 <GO>}

What about the payment book? The credit payment?

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

We don't see any outlier now, anything in terms of seasonality or last sales or delinquency. In our case, more specifically for the payment book, there is seasonality due to Black Friday and year-end sales in 2013. However, when we track the performance of the indicators both in terms of provision levels or level of losses within portfolio. This is very much in line with the curve that we saw at the same period of last year.

So we believe this is absolutely seasonal, we've been monitoring this closely and obviously this is very much related to the macroeconomic scenario and that's why we intensify our attention with this indicator.

So if necessary, we can react and change our strategies. Sales with payment books are very much aligned with our lost years under our business strategy with a slight growth vis-a-vis the first quarter and a slight year-on-year. So this is volatility that is within our expectations. That will be -- we'll keep on monitoring this indicator and if there is any need to react, than we can change according to the macroeconomic scenario.

Just to add to this comment, still about sales. He mentioned, it's too early to give a forecast, we only had a couple of days. But after the World Cup, we can clearly see higher sales compared to last year. But it's too early to make any trends, however, this trend despite very few days we are very encouraged, excited and confident with our view for profitability for the second half of the year.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect Libano, so just to make this formal. By and large the company has had margin expansion, I guess even higher than the market expectations, but what about the top line. It is not so significant. So what about the tactics, do you think it's about time you become more aggressive with promotions? Or do you are saying that it would backfire, so what about the competitive advantage. I understand the market share keeps on going up vis-a-vis market at large among big players. Also might be room for losses so to speak.

So any concerns? What about the focus for the rest of the year? Will you keep your focus on profitability or any room for any changes in the view?

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

The profitability view Andrea is not isolated from other variables like price competitiveness and expansion. Having said that, we are searching for efficient processes, cost reductions so that can generate funding to be invested that's our tactic, it is price competitive or even to accelerate expansion. Considering the level of 70 stores, the expansion expected the level of margin maintenance, we are confident in this level of margin expansion and also to maintain the margin levels coherent this expansion.

So naturally, we do have spending to be competitive and we have to monitor it daily. We had campaigns for the cuts showing all assortment and our capacity to understand our customer's interest. They are calling for better product mix with better prices. But this is part of our daily agenda, we want to be competitive and we also want to improve our sales, gain market share, being profitable. So, we research for this balance is something always on our strategy.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you very much.

Operator

Guilherme Assis from Brasil Plural has a question.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning, everyone. Thank you for taking my question. Going back to the mix and growth question, particularly in the second quarter and the expectation for the second half of the year. I wonder if you could give us some color about product category. How about growth in terms of same-store sales or something other sorts, for smartphones, TVs, furniture, mobile phones in the third quarter? And what about the second half of the year?

I think you mentioned in the World Cup you had white line effect. So did you predict any improvement? But I would also like to know the growth expected for the second half. Could you give us a breakdown by category and quantifying give us numbers based on the second quarter, so we can have some data for the second half of the year, it would be really helpful. Thank you very much.

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Thank you Guilherme. Vitor speaking. So mentioning very briefly, the sales mix for the second quarter, for reasons already discussed, we had very good performance with TVs. But TV category throughout the quarter grew 33%, that's the average for the quarter which is quite strong. Obviously, at certain times, growth was substantially above this level, particularly, thanks to the World Cup effect. The telephony category also grew very significantly about 30% this quarter. These are two categories that will highlight in the second quarter very strongly.

Q - Guilherme Assis {BIO 16143141 <GO>}

That was already expected, a shift among categories for consumer electronics. These items have a different performance compared to furniture and wide line categories. So what is the expectation in the future?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

This is very much aligned with what we saw, not only in the last World Cup, in 2010, but also in the Confederations Cup last year, more intense in 2010. So for the future, we expect to see another shift among categories. White line for instance and furniture categories will probably become more relevant in the sales mix.

That was the behavior in the last Cup, and we expect to see similar behavior now. But it's important to say that the telephony category is a category that we've been heavily invested on, investing in. We expect it to see very strong performance already in the second half of the year.

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

Guilherme, Libano speaking. All those strategies that we've adopted is focused on the company's brands. What I am trying to say is that the alignment of strategy applies to all channels where our brands are promoted. Our goal is to search for a better product mix that is price competitive and also delivers top quality service; this applies to all channels with very integrated planning. And importance of this synergy in the group, putting together profitability that generates funding for growth and to re-invest in competitiveness, okay?

Operator

This concludes the question-and-answer session. We'd like to give the floor back to Mr. Marcelo Rizzi de Oliveira for the closing remarks.

A - Marcelo Rizzi de Oliveira {BIO 19111391 <GO>}

I would like to thank you all again, and to highlight that we will be here for you. Our IR team is fully at your service for any further questions. Have a good day.

Operator

This concludes Via Varejo conference call. The IR team is at your service to answer any other questions you might have. Thank you all for being with us. Have a great day.