

Q3 2013 Earnings Call

Company Participants

- Fabio Abrate, IR Officer

Other Participants

- Bruno Taveira, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon. And thank you for standing by. Welcome to the conference call of B2W Companhia Digital to announce their results of the Third Quarter of 2013.

Today with us we have Mr. Fabio Abrate, Investor Relations Officer. And Mr. Murilo Correa, Investor Relations Officer of Lojas Americanas.

For you to understand better this conference call, you should use the support presentation, which is available at the address www.b2wdigital.com.

We inform that this event is being recorded and all participants will be connected in listen-only mode during the Company's presentation. Next, we are going to start a question-and-answer session, when further instructions will be provided. (Operator Instructions).

A replay of this event will be available right after the event for one week.

Before proceeding, we would like to clarify that statements made during the conference call relative to B2W's business prospects, financial. And operational goals and projections are beliefs and assumptions of the Company's management and are based on information currently available.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions, because they refer 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 operational factors may affect the future performance of B2W Digital. And may lead to results that are materially different from those expressed in such forward-looking statements.

Now, I would like to turn the conference over to the speaker, who is going to start the presentation. Please, Mr. Abrate, you may start.

Fabio Abrate {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen. I thank you all for your presence in our conference call.

Before starting the presentation of the results of the Third Quarter 2013, we would like to share with you important results that we attained in the past quarter. The Third Quarter of last year, of 2012, the Company started to grow sales, with an increase of 18% compared to the Third Quarter of 2011. Since then, the Company has been delivering consistently increasing -- and increasing results, quarter after quarter, combined with a clear. And well-defined strategy creating entry barriers to operate in the Brazilian electronic commerce market.

In the Third Quarter 2013 saw represented for the fifth quarter in a row gross sales at levels that are superior to the market, gaining market share with evolution of the gross margin and EBITDA margin. The Company's net result also has presented a significant improvement with a 15% growth compared to the same period in the previous year. And it is the best net result that we've reached in the past seven quarters.

These results make us sure that we are on the right track. And that B2W Digital is the best-structured company to face the challenges of e-commerce in Latin America. And to capture all the opportunities in this market.

In this manner, we would like to thank, once again, the dedication of our employees, who are part of the most successful digital team of Latin America. We would also like to thank our suppliers, shareholders. And, especially, our customers, for the preference.

In this manner, I invite you all to start our presentation on slide number two, where we're showing the main highlights, consolidated for the Third Quarter of 2013.

In this period, we reached important results, of which we highlight -- gross revenue grew 25.2%, reaching BRL1.7128 billion. The gross profit grew 27.3%, reaching BRL371.1 million, with a gross margin of 24.7% of the net revenue, with an evolution of 0.9 percentage points.

The adjusted EBITDA grew 30%, reaching BRL107.1 million, with an EBITDA margin of 7.1% of the net revenue. And one evolution of 0.4 percentage points.

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The net working capital improved 39 days, going from 94 days on September 30th, 2012, to 55 days in September 30th, 2013.

On slide three, we highlight the results that B2W Digital reached on the past 12 months period, during which the Company has recorded a gross revenue of EUR 6.4 billion , representing a growth of 31%, adding more than BRL1.5 billion in sales to the business, growing at levels that are above the market, gaining market share. And demonstrating consistency in strategy and results.

Now, on slide number four, we highlight that B2W Digital, in line with its investment plan. And with its strategy, has been building important barriers, entry barriers, to operate in the Brazilian e-commerce market. The Company goes on investing strongly in three important pillars of the business -- technology, logistics. And customer service.

In the technology front, we have realized along 2013 three strategic acquisitions, doubling our team of technology and Internet. And strengthening our excellence complex to develop digital talent. Currently, we have more than 600 engineers, the largest team of technology and Internet in Latin America.

We also highlight the newly owned BIW -- B2W Technology and Innovation Center, a place that gathers together all our talent and inspires the development of new technology.

In logistics, we have also made another acquisition that was very strategic. In the month of April this year, we acquired the best transportation company for e-commerce in Brazil. And in October, we opened three new distribution centers, thereby expanding by 60% the Company's storage capacity.

In the front of customer service, we have consolidated our position as the best customer service in Brazil with 100% B2W team. The result of this work can be observed through the many awards that we won. And in the public rankings of customer satisfaction. With this movement, B2W Digital consolidated its leadership position in the market. And advances towards being the biggest and the dearest digital company in Latin America.

On slide number five, you can see the details of the four strategic details that B2W Digital did this year. The four companies that we acquired are the best in their respective areas of operation in Brazilian e-commerce.

Uniconsult, partner of the Company since the creation of Americanas.com in 1999, was acquired in April 2013. And it specializes in the development of back-end systems. The ongoing projects focus on optimizing control of orders, on optimizing systems for the operation of multiple distribution centers. And also on the development of systems that are specific for marketplace operation.

Click-Rodo, also acquired in April 2013, has the best delivery operation for e-commerce in Brazil, with great expertise in managing routes. And in operating the last mile. The initial

results of this acquisition are already significant. And can be observed in the best service level that we are offering to our customers.

Ideais Tecnologia, partner of the Company since 2005, was acquired in October this year. And it specializes in the development of systems and solutions for front-end, including the development optimization of online sales platforms, B2B and B2B2C and mobile systems.

Tarkena, another company that is a preference in its area, was acquired in October 2013. And it specializes in search algorithms, product recommendations. And freight management. It's also important to highlight that all integration processes have been very successful and that we are all very happy because we have the best digital team in Latin America.

Now, going to slide six, where we highlight the opening of three new distribution centers in October 2013. With the new distribution centers that are located in Sao Paulo, Minas Gerais. And Pernambuco, the Company has expanded by 60% its storage capacity.

With this development, three distribution centers with smaller capacity located in the same states were substituted. Currently B2W operates with seven distribution centers in the states of Sao Paulo, Rio de Janeiro, Minas Gerais. And Pernambuco. And following our investment plan with the objective of being closer to our customers, we are going to open at least seven more new distribution centers until the end of 2015.

We also highlighted the Company, in all its areas, is strongly prepared and optimistic for the sales of the Fourth Quarter of the year, with very important events such as Black Friday and Christmas.

Slide seven we would like to highlight that B2W Digital has won four awards of customer service. In (foreign language) the best company for the consumer, Americanas.com won in the e-commerce and great operations categories. Submarino Viagens won in the category tourism and leisure within the Internet.

Ingresso.com won in the category Internet ingressos tickets. And Blockbuster is online won in the Internet service category.

We would like to highlight that now the three main brands of B2W, Americanas.com, Submarino. And Shoptime, have a stamp RA 1000 in the ranking of Reclame AQUI and the stamp diamond, their ranking of the EBIT. These are high -- they are high reputation. This consolidates our service as the best service in Brazil. And we take advantage to thank all of our customer in Brazil.

Now going to slide number eight, we would like to highlight the launching of the operation of Marketplace in Submarino, aligned with the strategy of offering a purchase experience that is much better. Submarino, a reference brand in innovation in Brazilian e-commerce, initiated in the end of October a new sales operation model.

Called the Marketplace, the initiative integrates offers of different stores, broadening the assortment of the site. And enabling the purchase of a number of products in one-only transactions, all of this within a technological platform that is safe and effective.

The launching of this operation already reflects the gain of our efforts, together with the companies that were recently acquired. Uniconsult does have major expertise in this front.

On slide nine, we would like to highlight that B2W Digital won a bid to operate the e-trade platform in Ambev. B2W will be responsible for all the infrastructure of the online store, including technological logistics platforms that will focus on three segments -- bars and restaurants, supermarkets. And end consumers, counting with an extensive line of products.

On slide 10, we would like to reiterate the strategy and the investment plan of B2W Digital to be closer to our clients. In the years 2013, 2014. And 2015, we will invest over BRL1 billion in technology, innovation. And logistics.

To close on slide 11, we strengthen our view of being the greatest and the dearest digital company in Latin America.

These were the main comments regarding our performance of the Third Quarter 2013. Now we will open our Q&A session to clarify any eventual doubts that you have. We request everybody to be brief in your comments so that everybody can participate.

Questions And Answers

Operator

(Operator Instructions). Our first question is from Mr. Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, to everyone, Fabio, Murilo. I have a question regarding your working capital. There was a significant increase of accounts payable quarter after quarter. I would like to understand if this is in -- in your accounts payable you are including something regarding these acquisitions?

And I would also like to understand, if this is the case, what would be the normal accounts payable of the question?

The second question, in terms of working capital, is your inventory increase in this quarter, eight days vis-a-vis last quarter. And I would to understand also if this an effect of the consolidation of the distribution center. And as soon as your distribution centers are in operation, or in a more -- in a steady state, what would be your inventory stock? What do you expect in terms of operation, as soon as the operation stabilizes.

A - Fabio Abrate {BIO 17940993 <GO>}

Well. Good afternoon, Gustavo. Thank you for your attention. As a matter of fact, yet, we have evolved strongly in our working capital.

It's not the first question that we present significant gains vis-a-vis last year, 39 days of gain vis-a-vis, resulting in a need of 55 days in September. This is -- we already have normal working capital. There are no effects that are results of our acquisition.

The first effect, when we analyzed this, would be the Company's working capital that has been a shift from credit card to cash sales. Now, the increase regarding to our inventory, this is just natural movement of the Company, because we're opening new distribution centers. And we understand that there are opportunities in all the fronts, be it in inventories, be it in suppliers. And undoubtedly we still have opportunities when we think about accounts receivable.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Now your supplier -- your increase in your suppliers, would this show us a stronger demand that you expect in the Fourth Quarter because of Black Friday? How can I interpret this?

A - Fabio Abrate {BIO 17940993 <GO>}

Yes. Yes, we are strongly preparing ourselves for the upcoming events of the end of the year, as I mentioned, Black Friday and Christmas. So, naturally, there is a volume negotiation what represents an increase in our inventory in order to be able to face the sales of the Fourth Quarter.

On the other side, we also have an increase of our supplier line. And at the end of the line, balances these two variables.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

A last question here would be regarding Marketplace. Well, I believe that the acquisition of Uniconsult is giving us results faster than what we expected. You are already launching Marketplace. How do you assess the possible growth of this Marketplace? There are other players in Brazil launching Marketplace, as well. Do you believe -- what would differentiate your business, for example, if I were a small retailer? Why would I do Marketplace with you and not with other competitors. And what growth rates do you expect in Marketplace? And, if you could, give us, what you will sell in terms of volume, what will be your target in a year?

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you, very much for your second question. Marketplace, for us, is an extremely relevant initiative. As a matter of fact, it's a result of an effort between our Company and our acquired companies, mainly, when we speak about Uniconsult and Ideais.

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We launched an open operation. And we are testing and improving this operation. We have a medium and long-term. And we really do believe in this operation, because we believe that we will be able to increase the assortment to have more product for our clients to -- because we want our customers to trust us in the transactions that they will carry out with us in this platform.

And our customer will have access to the best trade conditions that would be what our B2W site offers. Specifically speaking about our Submarino, how do we differentiate ourselves? Of course, our traffic, we have strong traffic with our brands, as well as a robust and efficient technological platform that we have in order to offer this to tradesmen.

Tradesmen that are working with us in this undertaking, have attained very good results. They are extremely satisfied with these results. And, as I said, for the upcoming years we believe that this initiative, it is very important and that this initiative will contribute not only in sales. But also in margins.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay, thank you very much. So, would you have any idea when you will finish your beta platform and you will have a full platform? And what kind of revenue would you attain that would be like a percentage of your total revenue? So, what -- do you have anything regarding your future model?

A - Fabio Abrate {BIO 17940993 <GO>}

Well, thank you very much for your question. Well, as a matter of fact, we are operating. We are testing this model. This is our beta version to improve. We already have some stores working with us. And this is very important. We believe that throughout next year we will have a full operation.

This -- as you know, this is a pure margin. And if we add the 38 product categories that we offer to our customers in our sites, our expectation is a very positive expectation in terms of margins. Today we are -- we have a good balance with our existing categories. And, as a matter of fact, it is a competitive advantage that we present.

This is B2W compared to our competitors. If you have observed in the past quarters, we have been able to evolve in gross margin due to a better balance between our categories that are good for our traffic. But are not very good for margin. And with the categories that are of lower traffic but that contribute with our gross margin.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you, very much.

Operator

Excuse me. (Operator Instructions). Our next question comes from Mr. Joseph Giordano from JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning. Thank you for answering my question. It's about Marketplace operations. In my understanding this platform will initially be an IT platform. Is there any mid-term platform to offer to Marketplace store owners to offer your physical logistics platform for you to do fulfillment. So you keep their inventory. But the inventory risk will be theirs? Are you thinking about that in the future, or are you going to focus more just on IT?

A - Fabio Abrate {BIO 17940993 <GO>}

Good afternoon, Joseph. Thank you for your question. So, actually, today within our Marketplace platform we already offer the two modalities. So, fulfillment by B2W or delivery by the store owner, him or herself. So, store owners should choose the best option. And to us, it's very important because we can offer these two types of models for these third parties.

So, we are already operating these two different modes. Different store owners have different needs. And the important thing is that we can offer the two modalities.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Our next question comes from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. This is Irma Sgarz from Goldman Sachs. Now, with the integration of your latest acquisitions, how should we think about the expense line? Are you internalizing the expertise which certainly really adds to the business. But how should we think about this in terms of expenses and G&A, too?

And with that regard, I think this was one of the questions that the market had. Do you have any stock option program, or any variable part of this acquisition price, the stock options for those who come along with the acquisitions?

Thank you.

A - Fabio Abrate {BIO 17940993 <GO>}

Hi, Irma. Good afternoon. Thank you for your participation.

The acquisitions are very recent. And, undoubtedly, to us it's a great satisfaction to have made these four very strategic acquisitions and fundamental points for our business. In the mid; and long-term, probably we will be able to see again in the expense line.

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One important point is that regardless of this more mid; and long-term vision is that in this quarter, specifically, we increased our sales by 25%, as you can see. And our EBITDA grew by 30%. So, there was an operational leverage that was really significant, justify our point that this is a scale business. And that the business model of the Company will improve quarter on quarter, as we reach and realize our business plan and increase sales at levels that are above the market.

But to your second point, to us, in these acquisitions, undoubtedly, the pillar of people was very important. And within the plan and within the methods that we use to bring these companies to our business and, consequently, to bring these people who are very important. And they are the best people dealing with Internet and technology in the market, there is a concern and there is a retention plan.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you, very much.

Operator

Excuse me, our next question comes from Mr. Felipe Oliveira [ph] from Oceania [ph].

Q - Unidentified Participant

Good afternoon, Fabio. I would like to go a little bit deeper into the issue and the growth that you've been having for five consecutive quarters above the market averages and to consider that vis-a-vis all your acquisitions, operational improvements. And service improvements that you made.

Can you give us an idea, qualitatively, how much of the improvement that we've seen in the past five quarters came from adding new services. And at the same time, something that became evident in the Third Quarter, that you have managed to start a process of operational leverage towards break-even towards 2015?

So, another qualitative question, there are lots of opportunities, for example, the freight menu, to make your operation more profitable. How much of that has already been done and how do you see the future in terms of making it more profitable, in terms of adding more to the package to what the customers spend in the (inaudible) B2W Digital?

A - Fabio Abrate {BIO 17940993 <GO>}

Hi, Felipe. Good afternoon.

Well, in fact, for five consecutive quarters we have been showing a strong growth in sales, growing above the market, gaining market share, showing great consistency in our strategy, which is very important and significant to us. It's hard to identify one specific factor accounting for our evolution. There are many different factors. And at the end of the day, our main mission is to provide better and better service to our customers. And we've been fulfilling this mission and the gross sales comes as a consequence of

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customer satisfaction, especially to get customer preference, because they really preferring to buy in our websites.

Yes, you're right about the operational leverage that we've been able to see this quarter. We grew, as I said before, 25% in sales and 30% in EBITDA. So, our EBITDA margin went up 0.4 percentage points. This is the first time in the year when we can see an evolution of this margin as compared to the previous year. It's also the first time that we can see a net result that is better. We improved our net result by 15%.

When we look at the last seven quarters, this is the best point. So, to us, we believe that this is the result, not only of not just one factor. But of a whole set of factors and measures that we have been adopting in our Company.

With regards to freight, you said that at your third point in your question, all our dynamics of being closer to customers, of opening new distribution centers, have the ultimate objective of providing better services to our customers. If we are closer, we will, undoubtedly, be able to offer different service levels that will please our customers. We have no doubt about that.

Q - Unidentified Participant

Fabio, just one follow-up, in terms of timing. Do you think all of this is part of your investment plan until 2015 in terms of yields?

A - Fabio Abrate {BIO 17940993 <GO>}

Oh, yes, undoubtedly. Our investment plan, which starts in 2013 and ends in 2015. And we are expecting to invest more than BRL1 billion in the business. We believe that this is the right time for us to do this.

As we said at the end of 2011, we ended a very important cycle of the Company of integrating technological platforms. And along 2012 we had a period of transition. And at the end of the year in the Second Quarter, we resumed our strong growth. And in 2013. And even in the results shown in the quarter. And, undoubtedly, the results that we will still attain, all of this is very much in line with what we set ourselves to do.

Not only that, we've been creating significant entry barriers to overcome difficulties in this market. And this is a very strong competitive advantage to us. We are confident that we are on the right track in terms of facing challenges of e-commerce in Brazil and Latin America, as a whole. And more than that, we will be the best prepared company to capture all the opportunities.

Q - Unidentified Participant

Thank you.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you.

Operator

Our next question comes from Mr. Bruno Taveira from Santander.

Q - Bruno Taveira {BIO 17666955 <GO>}

Hi, Fabio. I have one question about other expenses and operational revenues, because it was around BRL20 million and now it has dropped and it's just half, to its half. Is this a new trend? Do you see expenses really going down, because you've been carrying it over from 2010 and it will lose the strength now in 2015, '13. And '14? What will happen?

A - Fabio Abrate {BIO 17940993 <GO>}

Hi, Bruno. Thank you for your participation. In fact, this quarter, if we compare it to the same quarter last year, we reduced that line by about 45%, which, to us, is extremely relevant. And this is not more than the reflex of all the improvements that we've been observing in the Company.

And the main objective of our work is that this line goes down and down and it's even lower than it was this quarter.

Q - Bruno Taveira {BIO 17666955 <GO>}

Thank you, Fabio.

Operator

We are now closing our Q&A session. I would now like to turn the conference over to Mr. Fabio Abrate for his closing remarks.

A - Fabio Abrate {BIO 17940993 <GO>}

I thank you all for your participation in our conference call and webcast. I would like to take the opportunity to invite you to enjoy the IET [ph] Festival in Americanas.com, the Book Day [ph] in Submarino. And electronic offers in Shoptime. Visit (inaudible) in addition to our travel and ticket sites. All of this with convenience, ease. And safety that only B2W Digital can offer.

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

Operator

The conference call of B2W has now ended. We thank you all for your participation. And have a good afternoon. Thank you.

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