

Q1 2013 Earnings Call

Company Participants

- Fabio Abrate, IRO

Other Participants

- Andrea Teixeira, Analyst
- Fabio Monteiro, Analyst
- Felipe Oliverio, Analyst
- Juliana Rozenbaum, Analyst
- Robert Ford, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good afternoon. Thank you for waiting. Welcome to the call for Lojas Americanas to discuss the results of the First Quarter of 2013. We have with us today Mr. Fabio Abrate, Investor Relations Director. And Mr. (inaudible), IR Director for Lojas Americanas. We suggest, to accompany the call, you use the support presentation that is available at www.b2w.com.

This event is being taped. And all participants will merely listen to the call during the Company presentation. Ensuing this, we will go on to Q&A when we will offer you more instructions. If you need any assistance during the conference, please request help from an operator by pressing asterisk-zero. And the replay of this event will be available immediately after the call for one week.

Before we continue, we would like to clarify that any statement that may be made during the call referring to the outlook of business for B2W forecasts and operational objectives are based on the beliefs and premises of the Board, as well as information available presently. Future considerations are not a guarantee for performance.

They involve risks, uncertainties and premises as they refer to future events. And therefore may or may not happen. Investors should understand that the general economic, industrial and other operational factors may impact the future performance of B2W and lead to results that will be materially different from those that we have expressed.

We would now like to give the floor to the speaker who will begin the presentation, Mr. Fabio Abrate. You can continue.

Fabio Abrate {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen. and thank you for your presence at the call for the results of the First Quarter 2013. Before we begin, I would like to take this opportunity to congratulate all of the mothers for Mother's Day that will be celebrated on Sunday.

In the First Quarter of 2013, B2W, the Digital Company, registered net incomes of BRL2.5 billion with a growth of 35% compared to the same period last year, with an improvement of 0.6percentage in growth margins, attaining 4.4 of net revenues and an improvement of 26 days in working capital.

The gross sales presented by B2W reflects the changes and enhancements that we have made during the last years, with the goal of coming closer to the customer and offering the best purchasing experience on Internet in Brazil and Latin America.

To face the challenges and capture all of the opportunities of the digital market in Latin America, B2W Digital will continue to invest strongly in logistics, technology. And innovation. In 2013, 2014 and 2015, we will be investing more than BRL1 billion to be closer to our customers.

Aligned with our strategy of investments to be a reference in the technology and Internet markets, B2W would like to announce the acquisition of Uniconsult Systems and Services, a well-renowned company in the development of systems and solutions for supply chain and e-commerce, an ally of the Company since the creation of Americanas in 1999.

Aligned with its investment plan and with the goal of offering the best delivery services, B2W Digital has signed a purchase and sale agreement with a transporter, Click -- Rodo Entregas, that has exclusive services for e-commerce and will allow the Company to come closer to its customers, offering expeditious and efficient services.

Once again, we would like to thank our partners for their dedication. They are part of the most successful digital team in Latin America. We also thank our suppliers for the partnership, our shareholders for the trust. And our clients for their preference.

Very well, we're going on to slide three to present the highlights -- the consolidated highlights of the First Quarter of 2013. During this period, we have attained important results, of which we would like to emphasize.

Gross revenues grew 35.4%, attaining BRL1,550,900,000. Net revenues grew 29.8%, attaining BRL1,298,700,000. Gross profits grew 32.8%, attaining BRL316,400,000, with a growth margin of 24.4% of net revenues, an evolution of 0.6percentage points. The adjusted EBITDA grew 23.7%, reaching BRL74,200,000. The net working capital improved by 26 days, going from 108 days on March 31, 2012 to 82 days on March 31, 2013.

B2W Digital announced the acquisition of Uniconsult Sistemas e Servicos Ltda. B2W Digital announced the purchase and sale of the transporter Click -- Rodo Entregas. B2W

Digital launched the official site for the Cup of Confederations 2013 and the World Cup Brazil 2014.

In slide four, we highlight the evolution of B2W Digital in customer service indices. As a result of the mobilization of the Company to offer the best digital experience in Latin America, B2W Digital continues to have an evolution in its indicators, this because of the improvement in operational and logistic processes that are pillars for sustainable growth. The sales growth is a direct consequence of the trust and preference of all of the customers that have bought the best brands of Latin America, americanas.com, Submarino, Shopcom. And -- Shoptime and SouBarato.

Reflecting the enhancements and processes, we would like to highlight the continuous evolution in our service indicators, registered at the site Reclame Aqui, that brings together the assessment of our customers in terms of their relationship with our companies. The B2W Digital brands have the best retail assessment online. And Shoptime has attained the Seal of Reputation that is excellent.

In the last six months, americanas.com, Submarino and Shoptime have continued to present a very strong evolution and have recorded an index of 100% of the customer service. In slide number five, we highlight the acquisition of Uniconsult Sistemas e Servicos Ltda. Uniconsult is a renowned company for the development of systems and solutions for e-commerce and a partner of B2W Digital since the creation of americanas.com in 1999. This acquisition increases our excellence in technology.

To go on to slide number six, we would like to highlight the acquisition of Click -- Rodo Entregas Ltda. Click -- Rodo is a company that specializes in rendering services for e-commerce. It has broad experience in the management of logistic processes. The operation, that so far depends on the approval of CADE, will allow the Company to come closer to its customers, offering excellent service levels.

We go on to slide number seven. And we remind you that we have the mall already at the official store for FIFA. B2W Digital offers a digital solution platform for several companies and was chosen by Global Marcas, a license company, by FIFA to develop an operative virtual official FIFA store for the Confederation 2013 and the World Cup in 2014. This virtual store was launched in Wednesday, May 8. And offers more than 2,500 license items.

We go on to slide number eight and highlight that B2W Digital, through the brand Submarino, was the official e-commerce for Campus Party 2013 that was held in January and February in Sao Paulo. Campus Party is the greatest technological event throughout the world, bringing together geeks, nerds, entrepreneurs, gamers, scientists and other creative people that go to the event to follow up on hundreds of activities on innovation, science, culture. And digital entertainment.

Throughout five days, conferences, debates and workshops make Campus Party a unique experience because, during this period, it becomes the main meeting point for the main digital communities in the country. These are moments where it is possible to interact,

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share knowledge, produce novelties. And through its stages, follow up and analyze the main trends of a world where innovating is a magic world. B2W Digital was present for the third consecutive year at this event, participating in the main debates on technology and innovation in Brazil.

We now go on to slide number nine. And we reiterate the B2W Digital vision, which is to be the largest and most loved digital company in Latin America. This consists in operating in Latin America in the e-commerce market, that shows the greatest growth in the world, to continue to be the largest e-commerce company in Brazil through continuous growth by gaining market share in the coming years, to have the most beloved brands, offering a new and completely superior level of digital experience, to think like a digital company, investing heavily in technology and innovation, to expand our focus and to go beyond the digital retail market, creating other digital business models.

In slide 10, we reiterate the strategy and the investment plan for B2W Digital to come closer to the client. In 2013, 2014 and 2015, we're going to invest more than BRL1 billion in technology, innovation and logistics to come closer to the client consists in being the best purchasing experiencing, offering the best product, the best prices.

And of course the best navigation in our sites, making the purchasing process easier, offering the best delivery services, coming closer to the home of our customers, delivering more expeditiously and with greater efficacy, offering the best service levels, truly enchanting our customers, being agile and efficient in the solution of problems. We want to be in the mind, in the home. And in the heart of all of our customers.

To conclude, in slide 11, we would like to reiterate that B2W Digital is committed with its strategy of coming closer to the customer, making the experience of digital purchases easier and more convenient, making customers loyal to our brands, continuously innovating and developing digital talents. In this way, we will continue to grow all of our operations, gaining market share. And generating value for the shareholder in the long-term.

These are the main comments referring to our performance in the First Quarter of 2013. I would now like to offer the floor for questions and answers to clarify any doubt. So that you can all participate, we request that you be very brief in your comments.

Questions And Answers

Operator

(Operator Instructions.) Andrea Teixeira from JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Fabio, if you could talk about the balance sheet. Between working capital and accounts receivable and growth, of course you have maintained a very strong growth. Congratulations. But there is a cost in your working capital. Although it has improved, I

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imagine that it's still at very high levels. And your cash burn is also very high. You know when you will see a normal situation? Because I believe you have good customer acceptance. And I believe that -- high acceptability. If you could create, when will you have a better balance throughout the year?

A - Fabio Abrate {BIO 17940993 <GO>}

Good afternoon, Andrea. Thank you very much for participating.

You're absolutely right. Yes. We did have strong growth in sales throughout the First Quarter of the first year. Reminding you that we've grown 35% in sales in reality is the third consecutive quarter growing above the market with a great markets share for us. Undoubtfully, these results -- earnings have been varied results.

Now, regarding working capital, as a matter of fact, we evolved 26 days regarding net working capital as all, which includes the three main variables that would be balanced between stocks, suppliers. And receivables. Now, a more deep analysis of process is very important to take a look at it in two specific lines.

That would be accounts of receivables, with the discounts that are offered to our customers. So when we see this in the combined result and the financial result as a whole, we have grown with our sales. And reminding you that the First Quarter of the year is a quarter that presents strong pressure over the Company's cash because of the seasonality of the last quarter. We have very important events, like for example Black Friday and Christmas.

Now, a comment regarding cash generation. Our nominal EBITDA, it's a very important positive for our business. We have grown 24% in EBITDA. And it is very important to remind you that our business, it is a profitable business. What is important here is that our initiative is to continue investing in our business.

Why? Why, because we do believe that we do have a major opportunity before us, remind you that we're in Brazil, Latin America region in the world that grows most when you talk about Internet. And B2W needs and must be prepared to capture all these opportunities, reminding you that we're in the initial stages of this market. Therefore, we're absolutely convinced that to continue investing is the best path to follow in order to create greater value to our shareholders throughout the long-term.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And Fabio, thank you very much. Just piggybacking on your comment, you can a CapEx last year. It was -- CapEx in the Fourth Quarter. I would like you to talk about the CapEx on the Fourth Quarter and about what the competition is doing in order to gain greater market share. If you want to assure your position, will it be through your B2C e-commerce direct? Because I imagine that if you, as a matter of fact, want to speed up marketplace execution now that you have a much more acceptable logistic organization.

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A - Fabio Abrate {BIO 17940993 <GO>}

Andrea, now regarding our CapEx, it is very important to remind you that, before DC were inaugurated throughout the last quarter of the year and the investments were done in the distribution centers were contemplated in 2012, in 2013 in the First Quarter the Company has already invested around BRL125 million. And that is totally aligned with its investment plan not only for 2013 but also for the upcoming three years where we expect to invest over BRL1 billion in the Company's business throughout the -- because we want to be closer to the customer to create a better experience in the digital arena.

Now, regarding the competition, what I can say is that there is no doubt that today our Company, in terms of platform, is better positioned to launch all the marketplace dynamic that undoubtedly is amongst our plans.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Now, perfect, yes. I observed that you put in your -- you had 400 within your 20 plan. If you have something that will take place in the upcoming quarters that will be in the triennial, are you -- how do you expect this year?

A - Fabio Abrate {BIO 17940993 <GO>}

In reality, within our investment plan, which contemplates 2013, 2014 and 2015, what we have mapped is an opportunity of inaugurating over 10 DCs. Today, we operate with seven. Therefore, at the end of 2015, we would have over 16 new centers. For this year specifically, we still haven't announced any new DC.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Thank you very much.

Operator

Tobias Stingelin from Santander Bank.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Good afternoon, Fabio. Could you give us more ideas regarding the acquisition? I didn't find anything here. I don't know if this was done in April. If you could talk about price, payment form, what do you see regarding logistics, regarding the holding, trucks, to better understand these recent acquisitions?

And I would also like to know from you, you feel at ease, sales have grown a lot. But from here on in the third, Fourth Quarter, your comparison base is a bit more difficult. Do you feel reassured and give us the sales guidance, or at least to give us in relative terms how much you will be able to grow? And I would like to understand, regarding sales, when should we see an operational leverage? When will you actually grow. And will you be able to dilute the expense growth that you have had? Thank you.

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A - Fabio Abrate {BIO 17940993 <GO>}

Okay, Tobias, thank you very much for your question and your participation. I believe it is very important to remind you that we're extremely happy with our recent acquisitions. These acquisitions are extremely aligned with the strategic plan of the Company and the investment plan of the Company.

We bought out two new companies. Uniconsult is a renowned company in terms of system development and solutions for e-commerce. We would also like to remind you that Uniconsult is a partner in B2W since the creation of americanas.com since '99. And this acquisition just is adding up to our excellent center of technology, bringing many new talents and bringing knowledge to our business.

Another acquisition was Click -- Hold, that is a company that is specialized in providing service to electronic comm trade and that has great experience in logistic management processes. Reminding you that it's an operation that still depends on CADE approval. But will allow the Company to be closer to their customers and to continue offering excellent levels of services.

The price and payment, well, these items we still -- we haven't mentioned these items. And we will not comment about these items.

Now, regarding the Company's optimism for the upcoming quarters, well, I believe that our growth, our sales growth, what we saw in the First Quarter where we strongly grew, we've grown 35% in sales from two strong quarters. So this creates greater optimism to the entire team, to the business. And regarding the year of 2013, of course I cannot give you any guidance for growth throughout the year. But I can state that the Company is prepared for the year 2013 to face any type of challenges and to follow all the opportunities. And we are extremely optimistic regarding this point.

Now, regarding operational leverage that was your last comment, well, in reality, I believe this is just a consequence of the Company's growth. And I can say that we are on the right path, that is a path of continue to invest in the business that capture all the opportunities of the market and creating the best purchase experience to our customers, offering the best service. And undoubtedly the financial model of the Company, the improvement of the financial model of the Company, yes, will be a natural result of the pathway.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you very much. And just to understand, without talking about figures, sometimes we don't know what is relevant, what isn't relevant. And I didn't find this information. Cash generation, for example. As you're consuming a lot of your cash, I would like to know what type of impact do you have -- impact in five installment bank with a percentage of your earnings from here on. We would like to have an additional CapEx expense in the Second Quarter. So do you have something that you can tell us regarding this?

A - Fabio Abrate {BIO 17940993 <GO>}

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Tobias, I believe that, regarding our acquisition, no, you don't have to worry about -- these acquisitions are totally aligned with our strategic plan and with our investment plan, not only for 2013 but for the upcoming two years, 2014 and 2015. These provisions will be reflected on the month of (inaudible).

Q - Tobias Stingelin {BIO 1557190 <GO>}

So when you talk about BRL1 billion in the upcoming three years, you're talking about CapEx? None of these acquisitions are being considered here, right? Or this BRL1 billion, it's only for DC?

A - Fabio Abrate {BIO 17940993 <GO>}

No. Investment of BRL1 billion for the three upcoming years contemplate all investments, even the investments that the Company will carry out in acquisitions.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you very much.

Operator

Fabio Monteiro from BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good morning, to everybody. I would like to explore an aspect of your acquisition that drew my attention. You have carried out two acquisitions as part of your investment plan in technology and logistics.

But in a certain way, this is a movement towards verticalization, that is to say you're bringing inside technology and logistics until you're able to attain better service levels, at least this is my reading. I would like to know if my interpretation is correct. And if we can expect more of these movements on your part. Until last year, you brought in customer service. This was also done to guarantee better services to your customers. And you seem to be doing that through your acquisitions. And I would like to know if this makes sense and if we should expect more movement of this sort.

A - Fabio Abrate {BIO 17940993 <GO>}

Fabio, thank you for your participation. And you are correct in terms of what you say. The Company is not going to save any efforts to be able to offer the best purchase experience and service levels to the customers. Now, if to offer these service levels we need to grow vertically, as is the case of the two acquisitions that we have done, we will continue to do this in the future. What is of interest -- and the two acquisitions are perfectly aligned with the Company's investment plan and fully aligned with the strategic plans. There is no doubt whatsoever that these two acquisitions will add a great deal to our business.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Very good, thank you. Another comment. If the Uniconsult, more specifically, has been your partner. And also has all of the main areas of e-commerce, which means that besides the fact that you are bringing in this part of the business, you're also going to impact your competitor, is this movement also part of this strategy for acquisition, or are you more focused on the benefits that you will have regardless of knowing what other players will be doing in e-commerce?

A - Fabio Abrate {BIO 17940993 <GO>}

Fabio, in truth, what truly motivated the acquisition of Uniconsult was the possibility of increasing our excellence in technology within the Company, bringing in people with brilliant minds and with a thorough knowledge of the e-commerce market in Brazil. You're correct, Uniconsult is a well-renowned company. And it has a large variety of clients. And we have a pre-established commercial relationship with these clients. Of course, we will deal with all of this very naturally through the coming months without further problems.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you, Fabio. Last question, if you allow me, on the growth of your sales, I remember that, in the last quarter, you had a significant sales growth. And this was due to a combination of factors, better traffic, of coming back of inactive customers. You had a great impact on your customer base and e-mail marketing, that is to say all of this is a result of the investments that you have been making.

I would like to know if anything stands out, if these were also the factors that made it possible to leverage your sales in this quarter. And if there's anything else that stands out that could explain this growth in sales among the different reasons that I mentioned. Thank you.

A - Fabio Abrate {BIO 17940993 <GO>}

Fabio, all of the points that you mentioned are evidently taking place. It is true that we had considerable growth at the end of the year. We had a 38% growth. And we grew, once again, during this First Quarter, gaining market share. And this means that our customer base is also increasing, which is very propitious. This is one of our main assets.

Now, there is no single factor that is responsible for this growth in our sales and operations. It's the combination of hard work and very intense work that the Company has carried out to improve its service levels. And we're being rewarded for our efforts as customers have trusted and preferred our brands and have bought with us.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you very much, Fabio.

A - Fabio Abrate {BIO 17940993 <GO>}

I thank you for the questions.

Operator

Robert Ford from Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. And good day to everybody. If you could speak a bit about the marketplace, historically, we were faced with (inaudible).

A - Fabio Abrate {BIO 17940993 <GO>}

Mr. Robert Ford, if you could please repeat Robert Ford your question?

Q - Robert Ford {BIO 1499021 <GO>}

Good morning. Again, Fabio, I'm asking if you could please speak about the marketplace. Historically, the Company was extremely concerned with contingencies and with third parties, which is very good. What has changed?

A - Fabio Abrate {BIO 17940993 <GO>}

Good afternoon, Robert. Very little has changed, in truth. The Company continues to be extremely attentive and focused on better servicing its customers. And to do whatever we need to attain this goal. I believe that our sales growth recorded in the First Quarter of this year, as I mentioned in the previous question, shows that our customers have preferred and have trusted and followed our brand.

In terms of marketplace, which is the first part of your question, there is no doubt whatsoever that this is a future project for the Company. Unfortunately, I cannot speak very much about this project. But it is fully aligned. It is part of our plan. And will contribute greatly to our future growth plans. And will also improve our results as a whole.

Q - Robert Ford {BIO 1499021 <GO>}

If you could please give us more details on delivery, how you operate. And why you have to buy.

A - Fabio Abrate {BIO 17940993 <GO>}

Oh, in terms of Click -- Rodo, this is a partner company. And it has been so since the foundation of americanas.com. We had an exclusive agreement with them. This is a company that has broad expertise in the management of logistic processes. And there is no doubt that logistics is a very important tier of our business.

And this is fully aligned with our strategy to better service all of our customers. And it makes sense, therefore, to acquire Click -- Rodo. And we're convinced that this acquisition was the right thing to do and that it will contribute significantly to the Company's growth plan, adding a great deal of knowledge to our business, insofar as it will enhance the management of all of our deliveries.

Q - Robert Ford {BIO 1499021 <GO>}

The question is where does it operate and which are its assets, if you could?

A - Fabio Abrate {BIO 17940993 <GO>}

Click -- Rodo operates mainly in Sao Paolo. And its main asset are the processes that it has developed. And of course the people that work there.

Q - Robert Ford {BIO 1499021 <GO>}

And does it also have trucks? Do you have an idea of how many trucks are operated by Click -- Rodo?

A - Fabio Abrate {BIO 17940993 <GO>}

Click -- Rodo has 10 trucks. But I would like to reiterate, the main asset that we acquired was their expertise in the management of logistic processes and the people that work there, that created the Company and that have been evolving since the Company was founded.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. And finally, do you have any idea of the negative cash flow?

A - Fabio Abrate {BIO 17940993 <GO>}

Rob, it is important to observe that B2W is a profitable company. And the Company has decided to continue investing in its business brands, because in our outlook, as we are in a company and an industry that is still in its initial steps -- I mean, B2W has only existed for six years -- this is the best decision that we could have taken. And the investment plan ends up having greater pressure on our results.

But if the Company is able to capture all of the opportunity that exists in the e-commerce market in Brazil, there will be an improvement in our financial model. And it will be a consequence, a natural consequence of our investment plan. Perhaps the most important point is that the Company is extremely focused on creating value for its shareholders in the long-term.

Q - Robert Ford {BIO 1499021 <GO>}

I'm deeply convinced about the opportunities of e-commerce in Brazil. And if we look at the level it has now and its potential. And I would simply like to ask if you have an idea of what you're going to invest this year in terms of cash flow to continue to be the leaders in this very important segment in Brazil.

A - Fabio Abrate {BIO 17940993 <GO>}

Our investment plan that was announced--.

Q - Robert Ford {BIO 1499021 <GO>}

--Not only your CapEx. But all of the cash flow for this year.

A - Fabio Abrate {BIO 17940993 <GO>}

The free cash flow is a consequence of this model, Bob. And the most important point that I would like to ratify and emphasize is that the best decision that the Company would make is this one, of continuing to invest in the business.

Q - Robert Ford {BIO 1499021 <GO>}

I fully agree with you. But if you could give us an idea, guidance of the level that you are investing. Thank you.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you, Bob.

Operator

Juliana Rozenbaum, Itau BBA.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Good afternoon, to everyone. I would love to go back to logistics verticalization. I still don't understand if you expect the Click -- Rodo acquisition to -- you believe it will bring improvement in people, processes, management, or if, as a matter of fact, you will buy trucks and operate -- if you will start internalizing and verticalizing your delivery process regarding everything that you sell.

And if this were the case, if the strategy is to do it better and just leave the consumer more satisfied with the delivery, although this will cost you more, or do you believe that there will be a drop in costs or some savings that you will be able to achieve through this verticalization?

A - Fabio Abrate {BIO 17940993 <GO>}

Juliana, thank you very much for your participation. And yes, now regarding the Click acquisition, I believe that the greatest asset that Click has are not the 10 trucks. It is the management system, mainly management system for less miles. It is what you mentioned. And the people that are there, that are the personnel that developed this model. And that now they add up to our team.

The target of this acquisition undoubtedly was to offer the best service level to all our customers, learning together with Click and what Click will be able to teach us so that we're able to manage our delivery service as a whole, not only in the city of Sao Paulo, as I mentioned. But also this will affect the entire country, reminding you that, in a short period of time, we will have DCs throughout the entire nation, according to our investment plan.

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And obviously, as we make progress in our strategy and this improvement and just better management of the delivery process as a whole, optimization of the logistic chain are a consequence, or a natural consequence of this process. So what you mean is that Click -- Rodo is also acquisition very similar to Uniconsult because it will help you with software and intelligence. You will not develop your own logistic. You will not replace third parties, right, in doing this in-house, right?

You're absolutely right. The acquisition of Click -- Rodo is highly related to the Uniconsult acquisition. We have brought knowledge. We are bringing to our basis the best people in the market regarding systems development for e-commerce and all the logistic operation regarding (inaudible) model when we talk about deliver.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Thank you very much. An additional question here. When we talk about the discounts when you -- front payment, isn't it easier, the receivable discount to the discount in the invoice? How do you expand one form of payment to the other? You're going to say that it's the consumer that chooses. But they only choose because you give them an option. So at the end, how do you see these two options that you offer to your consumers?

And moreover, thinking about this, you are giving them a discount in the invoice because you believe that they actually prefer the discount because you think it's better to pay upfront than just in eight installments, or 10 installments. I would like to understand how you see the payment forms that you have, or payment modalities that you have.

A - Fabio Abrate {BIO 17940993 <GO>}

This is important point. In reality, when we analyze cost regarding payment modality, it is very important to see everything as a whole. And you have to see it together with the discounts of receivables, or they pay in cash, or they pay in installments. This is nothing more, nothing less than a dynamic of seeing the cost added up and to interpret this entire value.

And you mentioned something that is very important here. In reality, the matter of the discount when you pay cash, it's the market dynamic. Today, as a matter of fact, it is a much more present dynamic than what it was in the past. And I believe that this is clear for everybody.

You realize this movement clearly when you see the follow-up of the Company when you compare the First Quarter this year to last year's quarter, First Quarter cash payments represented nine points of participation. Now, this is highly (inaudible) to what the market is practicing and, moreover, to what the customer demands.

Our duty as a company is to offer the best to the customer, be it regarding the product and the category that they want to find it in the site, payment need, how they want to pay it, be it cash, be it in installments, be it through invoice or through our own credit cards, we follow this type of dynamic. And everything shows us that this has been a very assertive dynamic because customers have bought from us.

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Q - Juliana Rozenbaum {BIO 2155607 <GO>}

But do you agree that, due to your discount cost of receivables, you should privilege installments? Because I believe you're having greater expenses when you encourage your consumer to receive this rebate when they pay cash.

A - Fabio Abrate {BIO 17940993 <GO>}

As I said already, this is an option. And yes, this is something that the Company must contemplate. But this is much more a dynamic of the market. And this is what the customer actually finds in our site, what they want to find in our site. I believe that you have to see this specifically because these items, the cost that you mentioned, together with the receivable rebates.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Yes. But when we go back to the answer -- former answer, you said B2W's profitable. I want to understand what kind of metrics are you using, because B2W is not profitable. And if you think about EBITDA margins, if you analyze receivables, these rebates or receivable rebates, this profitability can disappear. So when you say it's profitable, what kind of metrics are you using in order to substantiate the fact that it is profitable?

A - Fabio Abrate {BIO 17940993 <GO>}

I can talk about the metrics of our competition, okay. But our metric here, our EBITDA, this -- metric is we grew 24% when we compare it to the former quarter.

Now, what is important is the Company decided to continue investing in its operations. Reminding you that we come from a very important investment phase where we integrated all our technological platforms. And now we are undergoing a new period that would be to continue investing in the entire purchase process and to provide a better purchase experience to our customer. More and more, we're closer to our customers. Why? Because, of course, we want to capture all the opportunities that exist in the market in medium -- and long-term, creating value to our shareholders in the medium -- and long-term.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

This is my point here. Therefore, the major metrics for you in order to measure your strategy is the growth of your EBITDA regardless if you have a financial cost that is higher throughout this growth.

A - Fabio Abrate {BIO 17940993 <GO>}

Yes. The Company continue growing strongly in sales. This is very significant. This basically is a scale -- business of scale, generating nominal EBIT that pays our bills. This is nominal EBITDA. I believe that this is something that are really important. It's not margin. And obviously, the model as a whole, the free cash flow will be a consequence. This will be a consequence of the adoption of our investment strategy and how we capture all opportunities.

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Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Okay. Okay. Thank you very much.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you very much.

Operator

Felipe Oliverio [ph] from Ocerna.

Q - Felipe Oliverio

Good afternoon, Fabio, Maurelio, (inaudible). I would like to piggyback on the questions of operational leverage. And when we see your operational system, we can see that there was a strong increase in personnel and in human or capital. And distribution is aligned with the new DCs that you have. And this is basically concentrated in the second semester.

And something that you have mentioned a lot is about growth minus -- and scale and better profitability in the medium -- and long-term. Now, when you see these two, like personnel and distribution, that is the line that has been an obstacle for the EBITDA margin, if you see the growth margin, you will see the -- what actually has grasped the EBITDA margin in sales. And I would like to see with you how do you maintain this pace of growth above the market that you also mentioned in the past question? How do you see the evolution of this?

A - Fabio Abrate {BIO 17940993 <GO>}

Felipe, thank you very much for your question. I believe (inaudible) here with the evolution -- operational evolution as this improvement of scale appears. And we -- great part of our (inaudible) diluted, you are right, is the Company continues investing in assets. I believe the human capital. And naturally it is one of the main assets of the Company. And we will do everything to have the best people here.

Now, within the strategy of DC, that is part of our major investment plan, yes, we inaugurated four new distribution centers throughout the last quarter. And yes, we intend to inaugurate over 10 new distribution centers in the upcoming three years. And of course, this will exert pressure over our expenses. But with the increase of sales that we observed, naturally we will have a gain in productivity. And operational leverage that you mentioned as well, of course will be just a natural consequence of the entire evolution process of the Company.

Q - Felipe Oliverio

And do you believe, though, we are close to this gain of productivity? And do you believe that this will be (inaudible) offset by the operational? Because I know that Second Quarter is generally weaker. So I believe we won't expect much in the Second Quarter. But when we embark in the second semester, that if stronger in sales and you'll grow above the

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market, do you believe that you will reach a break-even point regarding productivity vis a vis operational expenses?

A - Fabio Abrate {BIO 17940993 <GO>}

Felipe, an important point. Our major strategy is to provide good services to our customers. And this incurs in a higher amount in expenses. Yes. Yes. The drop of these expenses will be gradual process I believe throughout the upcoming three years of investments in the Company. Thank you.

Q - Felipe Oliverio

Thank you, Fabio. A last question. You spoke about other categories as we saw in press, for example, garment and apparel. Do you see, besides apparel, other significant categories in the second semester that can help the gross margin?

A - Fabio Abrate {BIO 17940993 <GO>}

We did not comment about this category in the press. We announced it at our conference. And in fact, in 2013, we are going to launch a new category, which is that of shoes and apparel. We're extremely optimistic in terms of this addition. And as you mentioned, this is a category that will add to our gross margin. Characteristically, the gross margin of this category is higher than that of other categories that we have as part of our mix.

Q - Felipe Oliverio

Thank you very much, Fabio.

A - Fabio Abrate {BIO 17940993 <GO>}

I thank you for the question. Thank you.

Operator

Ladies and gentlemen, at this moment, we end our Q&A period. I will now give the floor to Mr. Fabio Abrate for his final comments.

A - Fabio Abrate {BIO 17940993 <GO>}

I would like to thank all of you for participating in our webcast call. I would like to invite you to visit the site of americanas.com, Submarino and Shoptime to take advantage of our offers in more than 700,000 items. Also visit our travel, ticket outlet and film rental sites. With all of this, we can -- this is what B2W Digital Company offers you. Besides this, our IR team is at your entire disposal to clarify any additional questions you may have.

Thank you. Good afternoon.

Operator

The B2W call ends here. And have a good day. Thank you for your participation.

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