

Q4 2017 Earnings Call

Company Participants

- André Fatale, Chief Technology Officer
- Eduardo Galanternick, Executive Director-E-commerce
- Fabrício Bittar Garcia, Vice President-Operations
- Frederico Trajano Inácio Rodrigues, President
- Roberto Bellissimo Rodrigues, Chief Financial Officer & Director-Investor Relations

Other Participants

- Guilherme Assis, Analyst
- Joseph Giordano, Analyst
- Luiz Guanais, Analyst
- Robert E. Ford Aguilar, Analyst
- Thiago Macruz, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Magazine Luiza's Conference Call referring to the Fourth Quarter of 2017 Results. At this time, all participants are connected in listen-only mode. Afterwards, we will have a question-and-answer session when further instructions for you to participate will be given.

Now we would like to turn the floor over to Mr. Frederico Trajano, CEO of Magazine Luiza. Mr. Trajano, you may proceed.

Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Good morning, everyone and thank you for participating in our call. Together with the Investor Relations team and part of our executive committee, we will be available to answer any questions that you might have. And I would like to start my presentation saying that 2017 was a very special year for Magazine Luiza, 60 years of age.

And with our main characteristics, which are the capacity to change, to reinvent ourselves and to - and the only motto that we have is nothing changes but our changing every time. So we opened our first store and then Internet our website in 1999, the first direct sales model with over 200 people in 2011, LuizaLabs created a new area of technology development in 2011 and we continued to implement many innovations over the last few years in digital evolution, where traditional companies - relevant companies all of a

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sudden become irrelevant overnight. And this characteristic that we have in our company of not fearing change and embracing change and innovation has never been as relevant as it is today. And thanks to this and our investments in technology and innovation and our culture, focus on people, our people and our clients as well.

We were able to overcome the three worst years in the history of Brazil. And with the result of the last quarter, it was the best ever result in the history of Magazine Luiza. And then afterwards Roberto Bellissimo will talk in detail about our figures, but I'd like to highlight a few things about our results, starting with the growth of sales.

E-commerce growing 60%, including for the first time ever, marketplace, 60% over a comparison basis that was very tough already, which was the last quarter of 2016 because we had already grown 42% and also our physical stores 20% growth, being 15% same-store sales and also very strong basis for 7% (00:03:23) in the last quarter of 2016 on this basis, so fantastic growth on a very tough basis. So we're very happy with these figures specifically.

I usually say that there are two ways of growing in your business and both are valid. The first one is to grow a lot very strongly through the detriment of your margins and a lot of investment in marketing, that is the same (00:03:52) detriment of cash flow. And the second one is with - growing with the superior service levels, based on sustainability. And Magalu has always chosen the second option, growing with a very good service level on a sustainable model. And we're achieving something very rare, which is growing very quickly and at the same time delivering profits.

And we're doing this, not increasing our prices, in fact, we are reducing our prices. Our gross margin for the year and for the quarter dropped vis-à-vis last year and also investment in free freight also increased. Also 50% of what we sell online has a free shipping, that is to say, no shipping fees. So we are able to increase our operating margin because of the major operating leverage that we have stemming from our model of multi-channel. And we have been placing our bets on this model for over 17 years and the multi-channel model gives us a lot of leverage.

The more we grow, the more our fixed expenses are diluted and because of that, in our economic model, we are able to offset the lower gross margin with a very strong dilution of our SG&A. And this is eighth quarter that we dilute these expenses on a row and we improve our value proposal for our clients and at the same time, we deliver profits.

And more than that, there is one thing that I consider very important and no digital revolution is going to change, a discussion (00:05:44) the company has. We generated BRL 1 billion in cash, over BRL 1 billion, and the company that don't do that will not survive. And together with over BRL 1 billion of cash injection that we had, with the capital increase that we had in September last year, we closed the year with a very strong position of net cash and Roberto will be talking in detail about that and which gives a lot of muscle, so to say, in order to accelerate our investments without any risks for our long-term business.

We usually think, well, we want to grow, but we, of course, we don't want to risk our sustainability in the long run. So our cash position today gives us a lot of comfort in order to make investments and not to the detriment of our future.

And I would also like to mention that, although the short-term result was very good, what makes me even more optimistic is that even with this result, we planted many seeds and that we are going to reap the fruit in the future, and they were many seeds that we planted. Evolution of marketplace is one of them, from BRL 3 million in 2016 to BRL 120 million in the fourth quarter of 2017, reaching almost 10% of GMV of the website in less than one year.

And probably a very important assumption that we highlighted in our letter to shareholders, we are extremely selective in terms of our sellers to our platform. We refused over 30% of the ones that submit their request and we also disconnect some others that really didn't deliver up to our standard. So we can do this in a scalable manner and we will have a lot of fruits in the future and we will keep high growth rate for the next few years.

I would like to mention specifically in terms of the outlook for the next year. You have to remember that our comparison basis will be very tough, very high. And the biggest competitor of Magazine Luiza in 2018 will be Magazine Luiza of 2017. So it's a very tough competition because we delivered quite a lot of results during the whole year. But we maintain our optimism mainly because of the recovery of the economy. So we will have tailwind and also the World Cup.

Whenever there is a World Cup, we have results in the previous quarters (00:08:35) growth in sales online/offline. So I keep our optimism although we have a very tough comparison basis. And I would like to reinforce a message, we will have two major focuses in 2018, accelerated growth in the active base of our clients and this is a major focus. We want to have a bigger penetration in clients that buy both online and offline. And this is the major focus for growth. It will be on the active client base that we have.

And the second focus is even more relevant, a significant increase in satisfaction NPS (00:09:14) and reduction in the delivery deadlines and improvement in our aftersales process. Many initiatives we've taken here at the company and we will be making significant investment this year in order to improve and to reach the best rates of consumer satisfaction in Brazil. And I'm not talking about one indicator, but many, both regarding our investments in cash and in energy and in efforts being made by everybody in Magazine Luiza.

And lastly, I would like to make a special thanks to all our employees that has an extraordinary performance in 2017 when we celebrated 60 years of age. And we also conquered the award of the best retail company to work for.

So thank you very much. And now Roberto Bellissimo will talk about our figures.

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Good morning everyone, thank you for participating in our call. I would like to start on slide number 4 talking about our results. Once again we grew 31%, including here marketplace and it was the highest growth rate in the last five years.

And the market grew about 8% according to the IBGE, so which was highest gain - market share gain in our physical stores, same-store 15% growth, and the contribution of new stores, 5 points in our growth, 60 stores that we opened over last year, a very good performance from these stores. Growth of e-commerce as well, with a very tough comparison basis online, overall 3% and we gained 60%, so which was an extremely high gain.

In gross profit, the growth of e-commerce was very high - gross margin but helping operating expenses dilution such as was the case during the whole year, we diluted expenses to one of the lowest levels ever in our history SG&A, 21%, which is one of the lowest in retail overall, EBITDA growing 38% in the fourth quarter, margin 8% to 8.6% and it is (00:12:00) a record margin for us in the fourth quarter since our IPO. We reduced our financial expenses as well and we increased our net income 260% in the fourth quarter, margin of 4.6%, our highest net margin. Cash generation was very strong, BRL 1 billion in the year, with a very important contribution in working capital. We improved it by BRL 300 million in the year and we also had improvements in our capital structure BRL 1.8 billion, the BRL 1.1 billion from the follow-on and BRL 700 million from cash generation from the company's operations over the last 12 months.

On the next slide, so little bit about our year, almost BRL 15 billion, growing 28%, much higher than the market overall. Our EBITDA BRL 1 billion for the first time ever; net income BRL 389 million, growing 3.5 times. Cash position and receivables BRL 2.5 billion. We reduced our indebtedness, our gross indebtedness as well, practically BRL 800 million, so it was the year with a net cash position of BRL 1.7 billion. Our best capital structure since our IPO.

Here, we have the evolution of our stores, 28 stores opened in the last quarter, a very fast pace in the opening of stores. We inaugurated in the year over 20 virtual stores. We inaugurated over 20 stores in the Northeast over the year. And the stores, as we said, have been helping us grow and also dilute our SG&A.

In investments, we increased our investments by almost 40% over the last year. And the highlight here is the investment in new stores, BRL 39 million to open 60 stores, which is an average of BRL 650,000 per store, which shows the company's capital discipline in terms of looking (00:14:47) for very good locations and not expensive locations and we also increased our investments in technology mainly and together with logistics should represent most of the investments by the company in the future.

On the next slide, we show the evolution of our sales and you can see that the growth rate was increasingly higher, accelerating the pace, total growth, e-commerce growing very strongly. On the next slide you can see the trend regarding our (00:15:26) SG&A and

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it's very clear that our gross margin in the quarter went from 29.6% to 29.2%. So, we lost (00:15:38). SG&A dropping 1 percentage point at the same time, which means that we gained 0.6 percentage points in the EBITDA margin.

Equity income, very consistent over the whole year, and the highlight here is the result from Luizacred and Luizaseg in the last quarter, both grew quite extensively and giving a very good contribution to our total EBITDA. On the next slide, you can see our EBITDA on a quarterly basis, going from a level of BRL 700 million in 2016 to BRL 1 billion in 2017. Margin going up every single quarter, growing 44% in the year, mainly due to the expense dilution as we mentioned, so we were able to dilute our expenses with payroll and also our rental expenses, so our rental account grew very little over the year, in fact, and in spite of these additional 60 stores. And many other fixed expenses as well were diluted over the year.

Talking about our financial result, we show here on this slide, dropping from 4.5% to 1.6% of the net revenue, almost 3 percentage points drop in our financial expenses. And net of the prepayment of receivables, we had a positive net revenue already, so expenses were basically only prepayment of receivables that dropped in the quarter as well. But the account as a whole or this line reflected the drop in the CDI, but mainly our improvement in our capital structure, cash generation and our offering (00:17:42).

In our working capital account, we improved again, working capital as a whole for the year, BRL 300 million. And mentioning that we improved inventory turnover, which is even better when the gain from working capital comes from the inventory turnover and not from the average term. And as our inventories are totally integrated as e-commerce growth, we tend to further dilute or further improve our inventory turnovers such as has been the case in the last few years. And when we look at our adjusted cash flow, we went from a debt of BRL 136 million to a positive BRL 1.7 billion net cash.

And on the next slide, we show how we got to this cash results, starting with the cash flow from operations of BRL 1 billion, CapEx at BRL 170 million, debt payments BRL 944 million. And as we said during the last call, we prepaid a lot (00:19:00) last quarter reducing our growth indebtedness. We paid interest and we issued stock BRL 2.5 billion. And when we look at the capital structure, we see that we went from BRL 1.8 billion debt to BRL 800 million, further reducing our interest expenses from now on.

On page 18 (sic) [page 12] (00:19:26), you can see the evolution of net income on a quarterly basis. Every quarter, we have been growing. And in the last quarter 3 percentage points increase in our margin went from 1.6% to 4.6% of the net revenue; and for the year, going from 1% to 3%, very high growth as well.

And lastly, talking about Luizacred, also a very good growth in the quarter and in the year, you can see that the total billing grew by 29% of Luizacred and the participation of Luizacred in our sales is at the highest level ever. And Luiza Card in our stores grew 52% in the quarter. And the loan portfolio of Luizacred also grew reaching BRL 5.7 billion and the total Card base also grew to 3.4 million clients.

And also, we had a significant reduction in the delinquency rate in the year, 2 points NPL 90 decrease. And if we go back one year, last year, we had already reduced 3 points, so the last couple of years, we were able to reduce by 5 points our NPL 90 growing sales and increasing our portfolio and increasing the profitability of Luizacred as well.

On the next slide, we show the quarterly net income of Luizacred. All the quarters this year were better than last year, mainly due to the improvement in the delinquency levels and the reduction in the funding costs, reaching the last quarter a ROE of over 23% in fact, so these were the main financial highlights.

And now we would like to open for questions from you. Thank you.

Q&A

Operator

Ladies and gentlemen, we will start now the question-and-answer session. Our first question comes from Luiz Felipe Guanais, BTG Pactual.

Q - Luiz Guanais

Good morning, everyone. Thank you for the question. My question has to do with fulfillment. You said Fred that the focus of the company was, while we have been seeing this over the years, the focus on service level and the improvement in the shopping experience for the consumer. So how do you see the evolution of the fulfillment platform in marketplace, not only for 2018 but also the next few years?

A - Operator

Thank you very much for your question. Good morning. The focus for 2017 in fulfillment was very much on our 1P. So we had many initiatives being carried out, among them the improvement in the shopping experience for the click and collect mode (00:22:56) and increasing volumes as well. So with the significant increase in volume and the delivery terms of click and collect, most of the deliveries were made in less than 48 hours and some even in 24 hours. And this will continue to be our focus.

And another important point is migration of our delivery network that is to say the carriers, the big ones going to the Luiza network, carrier network and we were able to get over 80% penetration of the Luiza network, regarding carriers, small carriers last year.

And when this company - when this operation becomes very smooth, then when we said during our message to our shareholders and we have to start to pilot to say, the availability of this model to the sellers, so we started on the basic level, that is to say the standard in the market, but afterwards we will be giving you some figures about that.

And now we want to include mainly this network and the stores under process for this year. We will have some pilots with some sellers, and as we see that this experience is

okay, then we are going to roll it out. Our focus will always be quality. So we will have pilots this year with some sellers, and probably roll this out over 2019.

So our focus will continue to be on quality, on our platform, good shopping experience for our clients and we are not rushing anything. And our main focus for the marketplace is not (00:25:01) additional take rate or an additional take rate. Our main focus of our delivery platform available to consumers is to guarantee the level of service to our customers at the same level that we have in 1P. So, one of the assumptions is to have the 3P service level equal to the 1P service level. This is a big challenge and we believe that this is the only way to do it.

A - Eduardo Galanternick {BIO 20410320 <GO>}

This is Eduardo. In the last quarter (00:25:41) we have about 10% of (00:25:45) already participating in this product and they have been able to reduce the cost and at about 15% to 20% both the delivery terms and the cost.

Q - Luiz Guanais

Thank you very much. Just a follow-up regarding this, Eduardo. You talked about penetration of Magalu delivery. Do you have any data that you could share about conversion or recurrence of purchases and delivered via Magalu delivery vis-à-vis those who are delivered by other logistic platforms?

A - Operator

Well not in relation to the frequency, what I can say is that the main conversion rate is the cost or the shipping cost and the delivery term as these sellers have been seeing that their conversion has been improving. This is all we can say for the time being. Thank you.

Robert Ford, Bank of America.

Q - Robert E. Ford Aguilar {BIO 1499021 <GO>}

Thank you, good morning, congratulations for the excellent quarter. What could we think about margin, because the competition will probably copy your structure, will emulate your structure?

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Thank you for your remark and for your question. Our focus here in the company is not guided by competition, and this is something that we also express in our letter to our shareholders. Our guideline is our strategy, and mainly our clients. So, as I said at the end of my initial remarks, we will be focusing this year on two things, the increase in our active client base, we will be making intelligent investments to increase our base with calculation of SLV (00:28:08) and looking at the long-term value investments both in marketing and other investments (00:28:16) in order to acquire more clients and marketplace has been helping us a lot.

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I told you that we grew 60% our GMV last quarter in e-commerce. And if we look at the items sold, almost 90% in items sold to market base makes us sell with a higher ticket and with the higher active base, client base, so this is very relevant in this context. And the second focus that we will have and that will require investments as well, is the improvement in our service levels. And this could sound as a platitude maybe, but this is a true fact we are placing very high target both for the stores' NPS and websites and the delivery terms, and this will involve investments by the company in the frequency of deliveries and the increase in the overall cargo and general investments by the company. And looking ahead, it will have some impact maybe not on cash margin, but on percentage margin, so we cannot give you a guidance for margin of course, but we will be making our model more and more efficient in terms of improving service level. And I say this with the same consistency that I have been repeating since 2001, we have never waived profitability to grow significantly; we do this with a lot of consistency. And when we established e-commerce in 2000, we have ever since that, we have been repeating this to you. And this year we will have some kind of investment being made and this potential gain that we would have will come from investments in - both in active clients and to improve the level of service. As we do not give guidance, so I cannot quantify this to you.

Q - Robert E. Ford Aguilar {BIO 1499021 <GO>}

Thank you, Fred. And what about your conversion into sellable centers, distribution centers?

A - Operator

Bob, we have just started to do this in some stores. We will be starting in March and we will start a pilot now. We have a high number of stores that we intend to convert into this model, about 100 stores that we intend to convert to the model that you mentioned, but very carefully to see whether this is going well or not, if the number should be kept lower or higher. And not to mention the new stores that will be opened already in the new format.

And from the view point of impact, it should be positive in the medium and the long run. Today some stores are already having structural problems because of the amount of products in the Store Pick-Up model. So in the back office structure, sometimes it was - it's not prepared for that, for instance in the Black Friday, so other categories as well. And we will have sellers delivering to the stores as well. So we have to prepare for (00:31:56) that for this gigantic number of Store Pick-Up that we have.

We have a separate NPS for the Store Pick-Up model, but so far things are going very well. But we have to anticipate that if we look at companies abroad, you will see that some have 40%, 50% of the total that is sold in the Store Pick-Up model. This is a possible number, so we have to prepare our stores to deliver very good level of service for our consumers and also having a very good structure for our team. So of course I'm worried about the team that does that, I have to give them all the equipment, all the infrastructure, everything that is necessary, so that they can really delivery and give our clients the best experience.

Q - Robert E. Ford Aguilar {BIO 1499021 <GO>}

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You have many software engineers involved in market integration in stores and everything. Could you talk about how you hire and how you retain good engineers?

A - Operator

Well, André will be answering your question.

A - André Fatala

This is André Fatala (00:33:25). Regarding our development team, since last year, we have integrated LuizaLabs and they are in-charge of the whole IT part of the company, reorganized the way we divided the teams and we started to change the profile in order to have more and more developers in order to cater to the demand that we have in development.

And now in 2018, we are working in the expansion of the teams. We're going from 41 to 48 and we will be focusing on the expansion of the team that we will be working at marketplace. And also, in the support of this change or digitalization of the stores and transforming them into sellable (00:34:17) DCs. And about retention, we have been doing quite a lot of work in LuizaLabs and the culture is very strong. And last year, we had over 400 people and only less than 10 left. So our focus was on these developers and international companies and building this culture in which these people are contributing to face these challenges that we face. And our engineers want to stay here and they want to build national technology. They don't want to go abroad.

Just to give an idea, Bob, we mentioned this number in our letter. About 30% of our whole payroll is in LuizaLabs. So, the proportion of LuizaLabs vis-à-vis the total team, administrative team, I'm not considering the store personnel or the DC operators, I am talking about the administrative people. And you can see that the company is becoming a tech company in fact.

Q - Robert E. Ford Aguilar {BIO 1499021 <GO>}

Thank you very much and congratulations again.

Operator

Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning, everyone. I would like to ask about the investments to be made and then fulfillment. And when you look at your marketplace today, what would be a feature that is still lacking and that should be your focus? And what you see as the major challenge in order to make this platform soar or take off (00:36:22) digitalization of the company? And I would like to know if you have any project, something that will help your seller.

A - Operator

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The focus of marketplace this year, I'm going to split it into two large groups. The first one is what we call findability. So many SKUs being put inside the platform from 40,000 items to over 1 million SKUs. And the change that you have in the whole tree (00:36:58) of the company and the search algorithms is brutal. It's a very significant change. And the process of finding a product both for the consumer and for our team in order to have this structure, it becomes more and more complex of course. So working with this complexity and simplify it, because we do not want to waive simplicity in our shopping process and the ease of finding a product. So it requires a huge effort on the part of the business people, Eduardo's people and (00:37:32) and Fátala, the IT and all the algorithms in order to make things work. And so that the shopping experience at the website continues to be simple and straightforward and also finding the best offering. If the offer of the seller is better than (00:37:52), it has to be shown as a priority in the search.

So I would say that the main endeavor from the view point of the consumer is this one, from the seller view point, we have already acquired Integra and the integration of the team, everything that has been done already. So we have already improved the onboard process of the seller. So we integrated many platforms and re-tax (00:38:20) and trade and the ease for the seller to upload the catalog. And the Magalu is already very good in spite of all the steps and all the filters that we have because we are much more demanding in terms of documentation than most of the market that are not as concerned as we are vis-à-vis the onboard process. But I see that we still have room for improvement in the process in terms of integration and also some difficulties with some platform that is integrated and the NPS (00:39:05) for the client and the seller because as far as we are concerned, the seller is also a client. So we have to give a very good service. We have to be very agile and respond very quickly and if we have any cancellations, we have to solve this very quickly. And we talk a lot about Magalu deliveries, but there are some basic things in our daily routine that we have to improve and we have very high targets and very specific targets for that. Would you add something (00:39:37) market?

One point that is important is the consumer model or the consumer service level that we have to deliver. And I think we still have to innovate there and not follow the same model of client service. And this is a big investment that we will be making in our platform to improve that in 3P in terms of scale. As Fred said, our main challenges to scale and we launched a new on-board process at the end of the year a platform that will further accelerate all this process.

It has many steps but this will ultimately reduce the inclusion of a new seller or the time for the inclusion of new seller and also increase the participation of marketplace and all the channels of the company. So, besides everything that Fred said about the challenges in the platform, we launched the sale of these products in our physical stores, 17 already, and we are closing the cycle because you have to sell and then the aftersales, so it's a cycle. We already have 30 sellers there. And in this small universe, we are projecting this, so (00:41:22), without wanting to make this happen everywhere, but any way we see a major opportunity in this regard.

We launched the Magazine Luiza as well, some sellers are already selling there and there is a commission paid on each sale. So, we have to capture all the selling channels that we have to our sellers, good quality.

Q - Joseph Giordano {BIO 17751061 <GO>}

(00:41:57).

A - Operator

Good morning and thank you for your question. We're developing a new platform, which is called Magalu (00:42:10) and we will start the pilot momentarily. And this will allow the seller to discount their receivables in a very easy manner, in digital manner with highly competitive rates and the service of prepayment of receivables today, we're not doing it.

A seller can do this differently, so it will be a new source of services and revenue for the marketplace as a whole. And that we will be launching in the short run. And in the medium and the long run, this platform will evolve toward the digital portfolio, where we will be able to deposit the seller money in his own account linked to Magazine Luiza and/or directly in his account. And then we can have some other gains such as a float and also financial services et cetera.

And the second step will be the creation of this digital portfolio. And the third step, a little bit more in the long run will be to extend credit to the sellers besides the receivables that is to say finance their working capital and their investments. And this should be done when we already have a longer history in about these transactions, and sellers and very positively (00:43:46) with a partner from the financial sector. So, this is our goal.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you very much.

Operator

Thiago Macruz from Itaú.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon, everybody. In the last Magazine Luiza Day, you mentioned that you will be starting free shipping for the clients that would use your app. And what drew our attention at the time was the following: is it live already? Should we believe that this initiative is one of the most important to explain the very good performance that you had in the fourth quarter or if this is a source of upside that we should be seeing in the next few quarters?

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Hi, Thiago. Thank you for the question. This is Frederico. About the express delivery, this is only in the app. So in the app, we already gave free shipping. So it has more to do with the four to eight hour delivery than the free delivery. So we're still testing in the cities that we mentioned that during the Magazine Luiza Day, we have a good participation already, but it's too early to extrapolate this for the future.

In the last quarter, we didn't really represent a lot, more of the other initiatives were more representative, but we wanted to deliver the service and in express delivery, and if you buy through the app, you know that we do not charge shipping for more cities and more categories all over Brazil. It's too early to say, because we only have 10 cities included in this program, and it's too early to extrapolate those figures, but we are certain that we will have a killer (00:45:59) offer there for the future.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you.

Operator

The next question comes from Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning, everyone. Thank you for the question. I think it's very clear that the major highlight here was the growth of e-commerce and marketplace and all of the initiatives that you have been putting in place and your operating leverage. Now shifting the focus a little bit, could you talk about your initiatives and your plans for the brick and mortar stores, talk about the digital transformation in the brick and mortar stores? And what is still lacking and what kind of gains do you believe you will have in your physical stores operations?

Could you have additional efficiency gains in 2018? And could you talk about the opening of new stores? You opened 60 stores if I'm not mistaken in 2017. And the objective is it to keep the same pace for 2018 and for the foreseeable future? Thank you.

A - Fabrício Bittar Garcia

This is Fabrício, Guilherme. Good morning. About digital transformation, 93% of our sales are this way and we mentioned this in the letter to shareholders. Our major opportunity in credit, that will - we have to facilitate this and increase digitalization of credit, improving the shopping experience. And we have already digitalized part of our [Technical Difficulty] (00:48:07) and we will end this by the end of this year transforming the store in a [ph] mini (00:48:13) DC. And Roberto mentioned that [ph] tele-market (00:48:16) base in the stores will also help you - help us improve frequency but - and offering more categories. So these are the initiatives that have to do with your question, then that will bring us additional benefit.

And besides, for this year, we intend to continue to gain share in our categories. We gained share in all categories and in terms of white line and TV and smartphones, we gained more than 1 percentage point market share. And this year we will have the World Cup, which makes us very bullish we will have a very high volume of smart TVs being sold. We will have a very good availability of products and also good promotions. And we improved this management or the management of this area be very successful. So we believe that we will be growing a lot this year as well and expanded a number of stores. I

cannot tell you exactly the number of stores. We should be opening more stores than last year, that's all I can say about the number of stores.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you very much, Fabrício.

Operator

Now we close our question-and-answer session and we would like to give the floor back to Mr. Frederico Trajano for his closing remarks.

A - Frederico Trajano Inácio Rodrigues {BIO 17269235 <GO>}

Once again, thank you very much for participating in our call. And I would like to congratulate all our team for the excellent results delivered in 2017 and I reiterate our commitment to maintain our efforts to make traditional retail into digital and into a platform with physical presence as well in (00:50:21). Thank you very much.

Operator

Magazine Luiza's conference call is closed. We thank you for participating and wish you a very good afternoon.

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