

Q1 2018 Earnings Call

Company Participants

- Fabio da Silva Abrate, Chief Financial Officer and Investor Relations Officer

Other Participants

- Fabio Monteiro, Analyst
- Felipe Casemiro, Analyst
- Franco Abelardo, Analyst
- Gustavo Oliveira, Analyst
- Joseph Giordano, Analyst
- Marco, Analyst

Presentation

Operator

Good afternoon and thank you for waiting. Welcome to B2W Companhia Digital Conference Call to talk about the Earnings Results of the First Quarter of 2018. Today with us we have Mr. Fabio Abrate, CFO and Investor Relations Officer from B2W; and Mr. Carlos Padilha [ph] , CFO and Investor Relations Officer from Lojas Americanas.

To follow our conference call, we suggest you to use the slides that are available at ri.b2w.digital. We would like to inform you that we are recording the event, and all events are on listen-only mode during the company's presentation. Subsequently, we will have a Q&A session where additional instructions will be provided. (Operator Instructions) The replay of this event will be available after its closing for one week.

Before we proceed, we would like to clarify that forward-looking statements made during this conference call regarding the business prospects of B2W's projections, operational and financial targets are assumptions and beliefs of the company's board, as well as available information. Such considerations are no guarantee of requirements, because we're talking about future events and they involve risks, uncertainties and assumptions, and they depend on circumstances that may or may not take place. Investors must understand that general economic conditions and industry conditions and other operating factors can affect the future performance of B2W Digital and lead to results that materially differ from those expressed in the forward-looking statements.

Now we would like to give the floor to our speaker that will start the presentation. Mr. Fabio Abrate, you may proceed.

Fabio da Silva Abrate {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen. I thank everybody for the participation in our conference call. First and foremost, I would like to wish a Happy Mother's Day that will be celebrated on Sunday, and now we will start our message -- to the message of this quarter.

Ending 2017, the strategic plan of three-years of 2017 to 2019, the company initiatives of 2018 are focused on accelerating the total GMV through a hybrid model of digital platform, 1P + 3P + Services, with the continued growth of the Marketplace. As a result of these actions, the first quarter of 2018 recovered the growth of total GMV. We had a gain of market share and continuous drop of cash consumption. The market place continue developing itself very quickly with only four years of operation. We have reached a GMV of BRL5.2 billion in the past two months, this is a growth of 100%. Now the Marketplace share in the total GMV was 46.4% during the first quarter of 2018 and will represent over 50% in 2018.

As a result of the evolution of its business model, the company presented a significant progress in the cash generation trajectory, reducing BRL668 million in cash consumption during the first quarter of 2018, which totaled 477 million. This is a drop of 58% vis-a-vis, the 1.1 billion that was registered during the first quarter of 2017. Now in this sense, the company will continue its trajectory to generate free cash in the short term, very important to turn B2W into a self-sustainable company.

Another highlight of the quarter was the creation of LET'S, a management platform that is shared -- logistics and distribution assets of B2W and Lojas Americanas. LET'S is building a flexible model of Fulfillment, Flexible Fulfillment Platform, to maximize the competencies of each one of the company in order to capture all the opportunity over multi-platform operation. In this sense, a number of initiatives are underway, including the acceleration of important fronts of O2O, Online to Offline and Drop Off Lojas [ph] .

And in April of 2018, we carried out a soft launch of AME DIGITAL, a payment digital platform that will revolutionize how people deal with money. This new B2W business is an IF -initiative, innovation of the future that wants to create and accelerate disruptive businesses. AME will be a part that's very important of B2W consolidation process as a digital platform that connects people, business, products and services, always aiming at better servicing the customers and to create value to our shareholders.

Now when we go to slide three, we will comment the main highlights of the first quarter of 2018. The growth of the company's GMV was 24.1%, vis-a-vis 11% growth of the market according to the E-BIT. The market share of B2W expanded 2.8 percentage points going from 23.7% during the first quarter of 2017 to 26.5% during the first quarter of 2018. Now the Marketplace GMV registered BRL1.4 billion, which is an increase of 86.5% and totaling 46.4% of total GMV share.

Now the B2W Digital platform has attracted more customers and merchants. So throughout the first quarter, we've connected over 2,400 sellers and this is a new record.

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B2W deliver a proprietary platform of B2W that operates and controls the deliveries of the Marketplace, connected 2,800 sellers during the quarter and already services 7,700 sellers and represents over 63% of the company seller sales.

Now slide number four, we would like to highlight the evolution of cash consumption. During the first quarter, the company dropped cash consumption approximately BRL669 million versus the first quarter of 2017. This is the lowest cash consumption during the first quarter in the past five years. In order to capture all of the FX, cash generation is measured by the variation of the net debt compared to the past quarter always disregarding the operational resources that are result of an increase of capital.

Now to slide number five. We would like to highlight the quick developments of the Marketplace. During the first quarter, the Marketplace registered a growth of 86.5%, totaling a GMV of 1.4 billion and a share of 46.4% of the total GMV. Now in the period we have connected over 2,400 new sellers. We started with a base of 9,700 sellers in December 2017 to 12,100 sellers in March of 2018. The sellers base increased 2.4 times when we compared the first quarter of 2017, when we have 5,000 sellers and the first quarter of 2018 when we ended with 12,100 sellers. Now the B2W Marketplace assortment registered a growth of 82%. We started with a base of 2.7 million of items during the first quarter of last year to 4.9 million items at the end of the first quarter 2018.

On slide six, we would like to highlight the realization of Seller Day in 2018. This event during it's third edition had a participation of over 1,500 participants, including sellers, suppliers and strategic partners. Aiming at engaging and developing our Seller Day event lasted 12 hours and had four simultaneous stages. In addition to this, during the Seller Day, we announced novelty for the year 2018 like Buy Box Split and the availability of the distribution center of Itapevi in Sao Paulo for Fulfillment Marketplace. In August, we will have a second edition that will be even bigger of this event. We will have the presence of over 3,000 participants on Black Friday and the events of the end of the year as a principal focus.

Now when we see slide seven, we would like to highlight the availability of Itapevi strategy distribution center for Marketplace sellers in DC [ph] have 105,000 square meters and a capacity to service 100,000 orders a day with a deadline of shipping in one day time. The Fulfillment service will not be charged until the end of 2018.

On slide eight, we would like to highlight the rapid evolution of B2W deliver a platform that operates and controls deliveries of B2W Marketplace. This service that was launched in March of 2017 had 7,700 sellers connected, and this represents 64% of the total sellers base. At the end of 2017, B2W delivery was integrated to the Prime loyalty program allowing sellers to sell their products through a member customers of the program with rapid deliveries, high levels of services and free shipments. This way the items available in the Prime loyalty program targeted a 150 exclusive items and over 1 million items between the first quarter and the third quarter.

On slide nine, we will talk about the first options in the B2W services for delivery, the Drop-Off Store. Currently, sellers connected to B2W deliver have three types of services.

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Option one, fulfillment that is storage plus delivery; two Pick Up, that is you withdraw the product from the DC of the seller and then we deliver; and drop-off hub is when does the seller delivers in one another direct hub and we're responsible for delivery. Until the end of this year, B2W delivery will make available a new model of order collection for sellers of the B2W Marketplace that will also post their products in Lojas America.

Now on slide 10, we will talk about LET'S. This is a shared management platform of logistic, assets and distribution assets of B2W and Lojas Americanas. LET'S is building a flexible Fulfillment model with the objective to maximize the competencies of each one of the companies to capture all the opportunities at the multi-platform operation. Now in this sense, a number of initiatives are underway, including the acceleration of important fronts of O2O, Online to Offline. We have the Click and Collect, now this option Click and Collect is available in 400 Lojas Americanas to deliver products of 1P and will be expanded to 800 stores until the end of the year, including the assortment of connected seller to B2W delivery. This way, the model will be the only Click and Collect operation that is present in all the states of Brazil.

Another initiative for each store one seller. The initiative enabled any physical store to be a seller in the Marketplace of B2W with that withdrawal of the products in the inventory of the stores in one hour after you buy it online. Throughout 2018, all the 1,320 Lojas Americanas and in addition for the ones that will be inaugurated until the end of the year will be connected to the program. It's important to remind you that at the end of last year, Lojas Americanas was connected to the B2W Marketplace making their products available to deliver them in the states of Rio, Sao Paulo and Minas Gerais. Until the end of the year, the deliveries will be broaden to all the states of Brazil.

On slide 11, we would like to highlight that B2W is still recognized as the best service to customers. Americanas -- won an award E-BIT and it is the dearest diamond store. Now regarding the service indexes, during 1P, our average grade is 7 and our competition have 5. Now, our Marketplace was graded with a 6, while Marketplace of the competition was assessed in 4.7. We would like to highlight that the grade of our Marketplace has evolved, there is a gap in service level regarding the assessment of our direct sales. And we understand that this is a great opportunity for improvement and service offers to sellers so that they can improve their operations and can also have better service level to our customers. In this sense, we reiterate that B2W delivers and continuous growing and we are contributing to have much better service levels in the 3P.

On slide 12, we would like to highlight the soft launch of AME DIGITAL. This is the digital payment account that will revolutionize how people deal with money. Initially the AME client and buy at Americanas.com with a lot of benefits and also transfer and receive resources. Everything very practical, modern and safe. This new B2W business will have a launching roadmap of new services and new functionalities throughout the year 2018. Now AME DIGITAL is an initiative about IF - Innovation and Future, and its mission is to create and accelerate disruptive businesses.

And at last, I would like to say the dedication of all the associates that are part of the best digital team of Latin America, we would also like to thank our suppliers for the partnership,

our sellers of the Marketplace for choosing our platform, our shareholders for the trust and mainly to our customers for their preference.

These were the main comments related to our performance in the first quarter of 2018. Now I would like to open the session for Q&A so that we can invite any general questions. For all those who would like to have the opportunity to participate, kindly be brief on your comments.

Questions And Answers

Operator

Ladies and gentlemen, we are going to start now the session of Q&A. (Operator Instructions) The first question comes from Fabio Monteiro, BTG.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon, everyone. There is a lot to explore in terms of results, but I would like to focus initially on what's called my attention apart from the operation in itself in the growth of GMV. But what called my attention was what you announced in terms of LET's with the Lojas Americanas and on the stores which is a very important option for the seller and I was not expecting it to happen so soon. And also the initiatives that I wanted to understand is that you explained some good effect for the customers, smaller times -- shorter times, the consumer experience is improving. And I would like to understand if you already imagine the roll-out this year in terms of a freight reduction. Could you please give us an idea at the magnitude of this cost reduction and also the level of service in general, because obviously we had the decrease of Reclame Aqui or the ratings on Reclame Aqui may have an impact, and that could decrease the gap from the Marketplace. Could you specifically talk about the freight cost and also the improvement of the rating? Thank you.

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Fabio, good afternoon. Thank you for your participation. We are extremely enthusiastic about the announcements we made in relation to the initiatives of LET'S. We remind you that LET'S was built in the beginning of this year, and in fact, we have the shared management, that's quite interesting. In terms of assets, the mechanisms and the data of Lojas Americanas, we believe, this is an evolution of our platform as a whole. The two companies have aggressive plans when you look into growth and future. Each one has their own asset, but this can absolutely be very good -- it can contribute to the business. We're always pursuing to serve our customers better. We want to surprise them all the time and also aiming at efficiency in terms of cost. In this sense, serving our customers better, we make some announcements, we have some important initiative from O2O. Remember that, Lojas Americanas started in the Marketplace in B2W in the end of last year as a seller, until then we distributed our goods through the distance in the states of Rio, Sao Paulo and Minas Gerais. And the novelty here is that by the end of this year, delivery will be extended to all the states of Brazil.

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In Click and Collect, we believe that this is a very convenient service for the clients, until then, we had 400 stores. We have continuous assessment of where we believe we have an opportunity, we had this services implemented in 400 stores. Now we have decided to broaden this service to 800 stores by the end of the year. So we're talking about increasing twice the number of stores that is going to have this service available to the customer. I also remind you that once this increase is by twice, this is the only model of Click and Collect that present in all the states of Brazil.

The third initiative is that each store is a seller. This is a fantastic business. This enabled any brick and mortar store to become a seller in the Marketplace of B2W with the collection of the goods in the stores, just one hour after the online buying. Just to compare, the best benchmark we have from abroad in terms of those services is four hours. So abroad, they operated four hours. In Brazil, we have some initiatives that talk about 24 hours. Our proposal here is to have it deliver up to one hour after the online procurement. So it's going to be available for the customer to pick it up.

We're talking about implementing that in all the current stores of the Lojas Americanas. Currently 1,320 stores and in all the new stores that will be inaugurated. Also this is the sixth assortment is complementary. Then we have one of the beauty aspects of our two businesses. We've combined this B2W and Lojas Americanas. Our assortment is complementary. We do not compete in assortment when we look into the business of the brick and mortar and the online business. And also the other options that we have in the B2W delivery, because the Drop Off Stores was restricted to the hub. Today we operate with the margin of 200 hub and we want to increase this network of hub. We're talking about virtual capillarity and when we look at physical presence of LASA in the sales in the future. The idea is to have each store becoming also a Click and Collect point of goods for our sellers. We are extremely excited and enthusiastic about the results of the first -- I think this is the first question you asked and also the great perspective we have for the future.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Great. Fabio, I would like to take this opportunity to ask about AME DIGITAL. I would like to understand, how -- what is your strategy rather in terms of adding new online retailers, offline retailer, do you have the pipeline? This year we're going to see a movement towards looking Lojas Americanas, including them in the Marketplace, in the payment platform. I would like to understand that? And also, in terms of services in the platform, what we could expect in terms of new products along the coming months? Thank you.

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Great. Thank you for your questions. We are really enthusiastic about the initiative. It's a natural consequence of the platform evolution that started operating in e-commerce and it went to the Marketplace. Today we have a very powerful hybrid business which includes the 3P [ph] . And along the last 12 years, we have built some pillars that are fundamental to take this huge step. Through AME DIGITAL, this is a first product of IF - Innovation and Technology and our structure is responsible for creating and nurturing disruptive businesses for the two companies, B2W and Lojas where we already see the initial results of IF - Innovation and Future, I did say it wrong. This was a soft launch of the product with

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Americanas.com on April 27 to a better group of users. We defined this as family and friends. We made it available the apps initially for iOS and Android. And AME became a payment name in the checkout of Americanas through the QR Code. We launched the web website as well. The solution which is www.amedigital.com and then launched it into the website Americanas.com and also the /br [ph] and they have the ability to buy products having the benefit -- the cashback benefit. So we selected a group of items and we have a range between 5% and 15% in which the client will pay with value and we'll receive back in his account a value, so he will send again in the systems.

So there is always a cash back, and if you pay 100, you got a cash back of 15. We also have been installments. This is the proposal in the digital scope where we have the best installment of the site. So for the customer, there is lots of positive good news. At the launch, the functionalities, the traffic that customers can register their credit card and through the app they will buy using the card or through deposit or into the AME account. Today, if they want to make transactions between the accounts, I can transfer to you, I can transfer to me and I also can collect if I want. If I want to charge something, I can call extra value from a third-party. With this is just the beginning, this is a soft launch, we have a brilliant future ahead of us. We made a deep study on this kind of business in China, in other the countries of the world. So we have this dimension, what we are creating and where we are going to be. So soon, we will leave the B2W platform which we call (inaudible) and we will go to offers [ph] and on all (inaudible) the natural path is the sellers themselves as you said and another natural path for us would be to have Lojas Americanas as a client of this same (inaudible). This should happen during 2018, because we are in a very accelerated pace and we are really excited about this new business of the company.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you very much Fabio. Great.

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you.

Operator

The next question from Joseph Giordano, JP Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon, everyone. Good afternoon Fabio. I would like to understand the acceleration of GMV. We see some stability, I would like to understand until May, how you see GMV of the company, I imagine that along the year your basis will be easier. So we have some names against this transition. This will disappear. How do you see the trajectory of GMV acceleration during the year. And the second point, when we look at some competitor, as Fabio mentioned, with the integration of the platform -- with the physical platform, how do you see in terms of Click and Collect in terms of penetration of sale and the price modality. And what do you think that this will go to? Do you think it's going to be 40% or 50%? Thank you.

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A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Hello, Joseph. Thank you for your participation. In terms of the first point, acceleration of growth, we are delivering what we have agreed upon. In 2017, we had a transitional year, extremely important. The main point was not focused on the GMV growth, it was the acceleration of the Marketplace and the transition of some categories and items to 3P. And even though in the transition year, we observe the result in the financial model of the company, in the cash consumption model when we ended 2017. In 2018, the focus obviously is always the customer. Our strategy is customer centric but we are going to accelerate the GMV again, the total GMV, we see the results in the first quarter. We increased by 24% and the market saw an increase of 11%, it was accelerated by the Marketplace. It's a very interesting phase, 87% growth in sales in the Marketplace. When we look at the last 12-months, we see an increase -- two-fold increase and there is also a strength-based of acceleration of new sellers.

We have 2,000 sellers by quarter. We accelerated in the beginning of 2018, 2,400 new sellers in the base and we see acceleration in the penetration of B2W delivery which is the single driver in the Marketplace with a sustainable growth. We had levels of services that are extremely good fit for our clients. This is the year of growth, we believe it's 24% in the first quarter, the Marketplace grew by 87%, but we expect an evolution quarter after quarter. We are just beginning. This is just the beginning of this acceleration.

We already observed in the first quarter, the results in the cash of the company. The cash consumption was 1.50 billion. Now we looked at the first quarter of '18, 478 million, a reduction of 58%. We believe that we will combine this trajectory. We have an optimal balance 1P and 3P and the cash consumption of the company.

The second point you mentioned on Click and Collect, we believe that this is another service that we will offer our customers. B2W has a platform for distribution in logistics that was built to deliver goods anywhere, especially at the clients' house, the customers home. This is a major challenge but we have shown that all the investments we made, places in a stronger [ph] position. If the customer desire to have the goods -- the products delivered in a specific -- physical point, that's also great.

We are ready to deliver there. It could be a store of Lojas Americanas, it could be a metro station, a gas station or anywhere. We are ready to deliver there. As the controller in shareholders, this is a great quality in terms of number stores and cities. This is a natural path for us to observe places, and if it's the case, we could increase claim the number of stores.

Today we operate with 400 stores. We identified an opportunity to double the size. So by the end of the year, we will have 800 stores and we will be the only platform, the online platform with Click and Collect in every state of Brazil.

Q - Joseph Giordano {BIO 17751061 <GO>}

I would like to have a quick follow-up on Click and Collect. It's very interesting to make cost cheaper in the existing platform. I would like to understand how the increase in prices

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on the mail services had an impact in the company?

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Joseph, thank you for your question. This is a very important point. We already paid attention to this subject in 2011, we are now in 2018. We have been focusing on that for seven years now. We want to utilize our distribution and logistics, which encompasses all our technology. Today we are almost independent of the post office. We have our own grid, our own network. We built a platform, that's a technical platform, a technological platform, it's all asset like and we developed experts to face the challenges that we had at one 1P and today all this platform, all this network is available to the sellers in the Marketplace.

Today the Marketplace sellers faces same challenges that B2W face in 1P. So most of our growth in the Marketplace is sustainable, exactly because we have the support to the sellers in many fronts and the front of distribution is one of the main point.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you, Fabio.

Operator

Our next question is from Felipe Casemiro, HSBC.

Q - Felipe Casemiro

Good afternoon, Fabio, for answering my question. One, I would like to understand about the delivery from the sellers and could you elaborate on the percentage of sellers that used before the complete fulfillment model and what do you expect regarding the evolution of this figure until the end of the year? Now, through the Prime, could you talk about the average delivery deadline for customers and how you expect to improve your delivery deadlines until the end of year?

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you for your three questions. Regarding B2W delivery, we launched the service one year ago at the end of March of 2017. And after the day the penetration rate has been very high, because we have been growing strongly on the denominator. So we increased the denominator, the amount of sellers connected to our platform and simultaneously we increased the amount of sellers that use that service. For you to have an idea, at the end of March last year, 3% of our base was using B2W delivery. In June 2017, we already had 23%, September 32%, at the end of this year over 60% and now in March we're seeing that 64% of the sellers, they already use this services.

And when we talk about these services, we break it out in three option: one with the performance, so with stores of the last mile to the seller; the other option is we go to the -- DC, the seller collects the merchandise and take it to the customer; and three, was

drop off in the hub, so the seller goes to a direct hub and then they place the merchandise, we pick it up and deliver it to our customer.

And now, we have our fourth option that is basically we transformed Lojas Americanas in a place to collect the product, which is fantastic, because in addition to 11 DCs, we 200 hubs. And when we talk about the capillarity of Lojas Americans, we're talking about 1,320 stores. So we are exponentially increasing our network of distribution. So this is very good and this is connected to a level of services. And today and always be our main concern and this connected to the Marketplace, we have to give other support to the seller so that our customers continue extremely satisfied with us.

Now Fulfillment is one of the options within B2W delivery and now the novelty here was that during the Sellers Day April, we launched something fantastic that was reused all in Itapevi's DC that has 105,000 square meters and the capacity of shipment of 100,000 orders a day and we made this available at no cost to our sellers until the end of 2018.

So I can already tell you that our space is practically packed full. So the experience was of 100% and we're talking about a period of time of around one month. So I believe that there has been a lot of compliance here. Now our Prime program, our loyalty program where customer pays BRL79 as annuity and they can have quick delivery. What is rapid delivery? When we compare rapid delivery to a standard deadline of the market is 30% faster than the market. So here the customer has a service differential that is very important because they receive their product in half the time and they are able to -- they don't pay for their shipment, we expanded this program at the end of last year.

So this program existed in the past only with Submarino and now customers can also purchase at Americanas.com and at Shoptime. In the past, we only had one key item available for purchase. So we were talking about 150,000 items, now we have 1P and 3P items, so they can have access to over 1 million items. So this is very good for customers and for the company. You have recurring purchases here. So the recurring purchases are two times than savings, we're talking about five times in savings. So this is a program that is very profitable for the company and services our customer.

Q - Felipe Casemiro

Thank you very much.

Operator

Thank you very much. Next question from Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you very much for taking my question. I would like to understand more about Prime. Could you update us, what is happening with Prime, what are the current results of this expectation? My second question, I would like you to clarify the services that you have in the Itapevi's DC you have Fulfillment, last mile around the Fulfillment.

And within this question or within all the investments and logistics, I would like to better understand how you see the company's profitability activity? You're gaining a lot in gross profit but strong investments in logistics. I believe that you're not -- with this you can't expand your margin. I would like to understand how you see this throughout the year? Is it going through the slight expansion of the EBITDA margin? Could you please connect this to your performance and delivery strategy and what is going to happen in these terms?

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Okay. Gustavo, good afternoon, and thank you very much for your three questions. Now regarding Prime, I would like to remind you that we launched that as a pilot project in Submarino and after a year and a half, we decided to accelerate this program. The pilot program was -- that we could understand the results and to be tentative regarding the company's turn? Will they renew this after a year? Yes, why? No, why? Not. So after the experience period, the results were very positive. Here we decided to expand the program and basically is what I answered to Felipe.

So it was just the Submarino project. It was restrict to 1P products and we operated in three cities, Rio de Janeiro, Sao Paulo and Belo Horizonte cities. We are talking about cities, we are not talking about states here. And at the end of the year, we decided to launch it in Americanas.com, now in Shoptime, so that are our three main brand. They hold a loyalty program. We have expanded from 3 cities to 2,500 cities. So half of the municipalities of Brazil plus you can buy with free shipments and an extremely differentiated level of services.

So today we cover around 65% of the DDT [ph] of Brazil. In the past we only covered 20%, and at the end, we -- now we have the sellers of the Marketplace, they are on-board. Due to the level of penetration of B2W (inaudible) I'm in charge of this and I guarantee the level of service and natural that was to bring the sellers of the Marketplace with their assortment inside the Prime loyalty program. So results versus expectations were fantastic. And this is why we have accelerated this program.

Point number two --

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Just one question, how many subscribers, do you have in Prime?

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

We have 1,000. We do not disclose this information. I understand that it would be good for you to have an idea for your model but the competition is also paying attention to this program. This is why we don't want to disclose the indicators regarding Prime for the time being, okay.

Your second point regarding the Fulfillment, basically what we have is a group that is on board on B2W delivery in the past was last mile services. Now I can include Fulfillment. So what we have done here is to bring the seller in-house, so we stock their merchandise and also are responsible for the last mile. And this service is the service that is considered

for free until the end of the year which is fantastic, because the logistic cost are the main cost, thanks to an online operation. And to be able to provide this type of solution and services to the market by seller. We believe that this is a great leap in terms of growth and the level of services that we provide to our end-customers.

Now regarding your third point. There will be the profitability dynamic of the company. In reality, we have already seen the positive reflex of the transition that we underwent. This was an accelerated transition from 1P to 3P, this was last year. So it has ended. So we are basically transferred 2 billion in sales from 1P to 3P. This is not a simple process. You get (inaudible) sales grow went from one side to the other. This was done seamlessly in 2017, although last year was a year of transition, we started observing the positive effects. You know regarding the cash flow of the company in 2016, it becomes [ph] BRL1.6 billion and last year we ended with a consumption below 1 billion. Therefore, we were able to observe great evolution -- something that won't be different during 2018. So expectation is very positive for the entire year and the figures of the first quarter already confirmed and show us that we're on the right, path.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you.

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you. Gustavo.

Operator

Next question from Thiago Macruz, Itau BBA.

Q - Marco {BIO 19366945 <GO>}

Hello, everyone. Good morning. This is Marco [ph] . My question is about Click and Collect. You mentioned some initiative in the beginning of this call, I would like to understand. You see some of your peer with percentage of Click and Collect went higher. Can you give a qualitative idea of how you losing of sales -- how much sales you lose, because you don't have a -- have bigger Click and Collect operation?

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Hello, Marco. Thank you for your question. Click and Collect is one of our initiative from O2O, Online to Offline. We announced a few of them and one of them is Click and Collect. We are accelerating. We had 400 stores in the program. We're going to expand to 800 stores at the end of the year. We are going to double the number of stores. The client will have the possibilities to buy online and collect in the store. We agree that this is the figure constantly and as the clients demand new locations, we adapt our network solve it. I don't believe that we are losing sales by the opposite -- an online operation is based on convenience.

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Convenience for the customer is to have this products deliver to his home or our platform was built to meet that service, that means today I'm able to deliver in 100% of the Brazilian municipalities. So our proprietary platform of distributional logistics and brick and mortar is another set for us. We have the Lojas Americanas, 1,320 stores, a very aggressive year in present. But if the clients demands, we have other options for Click and Collect. We have the option of delivering to a metro station, to a gas station, the most relevant for us is that we are very focused on the demands of the clients, we listen to the clients and if the customer asks for a different collection points or we can make that request, we are ready for that.

Q - Marco {BIO 19366945 <GO>}

Perfect, thank you.

Operator

The next question is from Franco Abelardo.

Q - Franco Abelardo {BIO 17416219 <GO>}

Good afternoon, everyone. Thank you. Congratulations on your results. I have two question. One, related to cash consumption in the short-term. We will have a positive generation of cash. We understand that in the second quarter, we have already seen cash generation for B2W. And second question, a follow-up in terms of margin, it's a bit different the way you look at margins. We saw expansions of gross margins but we don't see the EBITDA margin, what was the EBITDA margin in 2017 in distribution. Could we expect relevant expansions of the margin for this year? Thank you.

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Hello, Franco. Thank you for your question. In terms of cash consumption, I cannot give you any guidance but the history is a good proxy for what comes ahead. As I said, last year, which was a transition year, we already saw reduction that was very significant in cash consumption, 1.6 in 2016 to 915 million in 2017, nominally almost 700 million. And in -- for 2018, we expect that we will have a very positive result. The first quarter is already a good portrait of what's coming ahead for the next quarters. That would be the proxy for the protection.

And to your second point, margins, now we adopted new norms, new accounting norms that are valid as of January 2018. There are a few changes but the final results don't change. For the final cash consumption of the company, we have a page in the press release, the page 10, where we present the figures of 2017 with the respective adjustments line by line.

If you look at the margin, the EBITDA margin of last year and the first quarter of 2017 is presented now at 2.9 and the EBITDA margin of the first quarter of 2018 in the same basis is 4.6. We expanded 1.7 percentage points. You really got the evolution of the gross margin of the company. We started with 1.1 last year to 27%. We're talking about almost 6 percentage points of evolution. And basically, here we have the results. We already

observed the positive results of this, that is a combination between 1P and 3P. As we unfold and it's not difficult to make the math. The Marketplace as we know contributed strongly for this -- to this expansion and we also observed an evolution in the gross margin of 1P.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you. Would you help us understand what penetration. Have this improved with new services, what about general expenses estimate is related to 3P? The question is, should we look at the SG&A expenses growing, similar to the GMV or do you have another scale and you can dilute with expenses to improve it even more.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you for your second question. The portrait has maintained basically flat in the last eight quarters. And the take rate is a function of three variables, the size of the seller in the platform of B2W platform, the more he sales, the more incentives he has. This is the first variable.

The second refers to what you sell, an extraordinary [ph] furniture, what kind of items that also has an influence on the tax rate and also the number of installments?

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

A seller that sells in five installments will have a different rate. It compares to the one who decide to sell in two installments. So this is a great policies variables and we have been able to maintain our tax rate in an average of same level in the last two years.

In relation to SG&A, the best way to observe SG&A is in terms of the GMV total percentage. When you look at expenses, especially sales, 1Q 18, if i'm not mistaken it was 9.8 in the first quarter of 18 and last year it was 9.5 or rather the opposite. this year it was 9.5 and last year it was 9.8. So there is an evolution of 0.3 percentage point. Normally it grew by 20% and GMV grew by 24%. So there was growth. So there is a direct relation to the growth opportunity the total GMV of the company.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you.

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you, Franco.

Operator

Ladies and gentlemen, due to time, we won't be able to answer all the questions. We would like to ask you to kindly talk to do IR team that will be pleased to answer the question. Now I give the floor to Fabio Abrate for his final consideration.

A - Fabio da Silva Abrate {BIO 17940993 <GO>}

Thank you all for your participation in our conference call. I would like to take this opportunity to ask you to check the great offers of the great trends of Brazilian Internet, Americanas.com, Submarino and Shoptime and Sou Barato. If you have any additional questions, our investor relations team is available. Thank you and good afternoon.

Operator

The conference call of B2W is closed. We thank you all for your participation. Thank you all for using Chorus Call.

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