

## Q3 2017 Earnings Call

### Company Participants

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

### Other Participants

- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Marcel Moraes, Analyst
- Maria Paula Cantusio, Analyst
- Olivia Petronilho, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good afternoon, and thank you for holding. Welcome to the Conference Call for B2W Companhia Digital to discuss the results referring to the Third Quarter 2017. We have here with us today Mr. Fabio Abrate, Financial Officer and Investor Relations Officer for B2W; and Mr. Luiz Saraiva, Financial Officer and IR Officer for Lojas Americanas.

For you to better follow this conference call, we suggest that you use the support presentation available at [www.b2wdigital.com](http://www.b2wdigital.com). We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the company presentation. Ensuing this we will go on to the question-and-answer session, when further instructions will be given for participation. (Operator Instructions). The replay of this event is available immediately after the closing for a period of one week.

Before continuing, we would like to clarify that forward-looking statements made during this conference call referring to the business outlook of B2W projections and operating and financial goal, represents beliefs and premises of the company's Board, as well as information currently available. Such forward-looking statements are no guarantee of performance as they refer to future events, they involve risks, uncertainties and premises and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, as well as industry conditions and other operating factors could affect the future performance of B2W Digital, leading to results that differ materially from those expressed in such statements.

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We would now like to give the floor to the speaker who will begin the presentation. Mr. Fabio Abrate, you may proceed, sir.

**Fabio da Silva Abrate** {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen. I would like to thank all of you for your presence at this call. Throughout the presentation, we will comment on the results of the third quarter 2017, the commercial and operating highlights and investments made on the platform. After the presentation, we will go on to the Q&A session.

Throughout the last five years B2W have strongly invested in the digital platform with the aim of connecting people, businesses, products and services. This significant investment cycle is part of B2W's strategic plan to be able to face the structural and logistic challenges of the country creating a better experience for the clients through entry barriers. The digital platform allows the company to operate in different business fronts such as Direct Sales, IP (sic), Marketplace, 3P, logistics and Distribution, Digital Services, also allowing for future business opportunity to be developed in an accelerated fashion.

Our digital platform has attracted further clients, it is a centerpiece of the company's strategy, and it should also attract strategic partners such as suppliers and marketplace sellers. In less than four years of operation, marketplace has reached 3.6 billion in volumes transacted in the last 12 months and continues to grow very quickly, a growth of 101.2 in the third quarter vis-a-vis the third quarter 2016. This marketplace growth reflects a value proposition that B2W offers to excel over qualified traffic access to the most beloved Internet brands in Brazil with logistics' support, distribution and service to the clients.

Different digital services and more specifically extremely experienced and qualified traits.. In the first nine months of 2017, the company investments were focused on the excellence of growth of marketplace representing 36% of total GMV, in 2018 it will represent 50% of GMV. The results of the actions underway have already reflected in advance in the trajectory of the company's cash generation. In the third quarter '17 B2W generated 44 million in cash, representing an evolution of 530 million vis-a-vis third quarter '16. The best result in the last four years. For the full year 2017, cash consumption compared to 2016 should be reduced significantly, then placing the company in the direction of free cash generation in the short-term, a movement that will make B2W self-sustaining.

We will now go on to the presentation beginning on slide three. And we will remark on the highlights of the period. The total GMV reached BRL3.2 billion with a growth of 5.1% throughout by the accelerated marketplace growth, that recorded 1,149 million in GMV, more than doubling in size and once again reaching 35.7% of share in the total GMV. Reflecting the investment carried out on the mobile platform for B2W and traffic transition to mobile devices in the third quarter 2017 almost 60% of accesses to site were made through smartphone.

Now B2W platform has attracted ever more clients, suppliers, sellers and strategic partners. Throughout the third quarter, we connected more than 1,800 sellers all qualified, thus obtaining a new record in the first nine months of the year we connected more than

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3,100 sellers. Finally as a reward for the company enterprise in offering the best Internet experience in Brazil, we conquered 754 new clients in the last 12 months.

On slide number four, we observed the evolution in the sales migration from 1P to 3P. Gross revenue that reflects the sale of merchandise from 1P showed a reduction of 671 million in the first nine months of the year. As a counterpart during the same period, the marketplace sales were accelerated reaching 2,737 million adding 1,420 million in sales. The sales migration from 1P to 3P is in line with the strategic decision of the company to accelerate the change of its business model. From pure e-commerce direct sales to a hybrid model on the platform, a combination of direct sales and marketplace and services.

We go on to slide number five. Highlighting the events of the company and its trajectory in cash generation. In the third quarter, the company generated BRL44 million an evolution of 530 million vis-a-vis the third quarter 2016, this represents the best results for our third quarter and the last four years. With this result, we wanted to find the goal of significant reducing cash consumption in 2017 compared to 2016, an important movement, so that B2W can become self-sustaining.

In slide number six, we highlight the rapid development of the marketplace with less than four years of existence, marketplace has become a business of BRL3.6 billion in GMV in the last 12 months, more than doubling year-after-year. In the third quarter 2017, marketplace reached a share of 37.7% (sic - 35.7%) in total GMV. Overcoming the goal and the vision of the year capping a share of more than 30%. The B2W marketplace offers the best value proposition for those who wish to sell on Internet. Sellers can have access to the brands with the best reputation when servicing clients in Brazil and highly qualified traffic. And counting upon the support of B2W in technological services, logistics and distribution ensuring the client will have the best purchasing experience. B2W delivery, the last mile service already has the adherence of 2,500 sellers, 32% of our sellers base. At the end of the year, sellers who are working with B2 -- delivery will be eligible to Prime the loyalty program for Submarino and Americanas.

We go on to slide number seven to announce the expansion of the Submarino Prime loyalty program. Previously, this was restricted to the capitals of Rio de Janeiro, Sao Paulo and Belo Horizonte. Prime will now be expanded to 2,479 cities in the South and Southeast, expanding coverage of the program from 20% to 65% of the Brazilian GDP. We're also launching Americanas Prime that will have the same coverage of Submarino Prime. The clients from Americanas can already contract this service for Black Friday.

The Prime loyalty program offers the client a superior purchasing experience for fixed annual value with Prime that client purchases with rapid freight and quick delivery, buying as often as you want with exclusive offers and dedicated service.

In slide number eight, we highlight the integration of Prime to the marketplace allowing sellers who are using B2W delivery to sell the products with free freight and rapid delivery to the client. With this integration, the assortment available for those who are part of Prime will go from 160,000 items to more than 1 million offers.

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In slide number nine, we highlight the launch of the C2C segment. The sale of used products among individual persons will significantly expand the assortment of sites accelerating organic traffic, increasing the repeat business and attracting evermore clients to the B2W site. C2C is a natural expansion of the B2W marketplace, clients who could only buy in our sites can also use this to sell their used products.

In slide number 10, we would like to announce that Lojas Americanas has began to sell its product in the B2W Digital site. Throughout the fourth quarter 2017 more than 6,000 items will be available for delivery in the space of Sao Paulo, Rio de Janeiro, Minas Gerais and Pernambuco. B2W is offering to allow it as a full service includes B2W delivery, the distribution and logistics operation, the B-Seller in the back office and technology part and SkyHub in the integration with the marketplace. In 2018, the last offer of projects to marketplace through B2W will be available throughout Brazil.

In slide 11, we highlight the company's reduction and expenses. The optimization of processes and rationalizing our expenses have generated a gain of 84 million in the third quarter of '17 and of 153 million in the first nine months of the year. In the last quarter, expenses with general and administrative sales represented 8.4 of the total GMV an evolution of 3.2 percentage points vis-a-vis the third quarter '16. It is important to highlight that the reduction in expenses has not hampered our service level for clients that continues to improve consistently in the 1P and 3P as we will see in the coming slides.

In slide number 12, we would like to underscore that B2W continues to be acknowledged for offering the best services to the client. B2W Digital, last Monday was a champion in two categories of the Prime Epoca Reclame Aqui. Americanas won for the fifth consecutive time. The category e-commerce for large operations and direct that won for the second time. The category in logistics and transportation. This award is based on the client's vote. Throughout the third quarter 2017, the B2W Digital brand maintained the highest levels of reputation in the site Reclame Aqui. In 1P, B2W has an average score given by client at 7.8. While the competition has a grade or score of 5.7, the 3P has a score of 6.4, while the marketplace at the competition is first at 12.8. The score of our marketplace has been evolving very rapidly, but it presents a gap in terms of service level when it comes to our direct sales.

We understand that this is a great opportunity for improvement and to offer services to sellers, enabling them to enhance their operations and also obtain good levels of customer service. We would like to highlight that our marketplace indicators are higher than those of the competition, in the marketplace platform as well as in direct sales.

We now go on to slide number 13, where we show the CapEx reduction and the evolution of the indices of coverage, so EBITDA which is our important metrics for operating cash generation in the company. In the nine months 2017, CapEx has a nominal reduction of 26% going from BRL331 million in the nine months of 2016 to BRL246 million in the nine months 2017. CapEx as a percentage of total GMV, represents a 2.8% in the nine months '17, while the CapEx coverage through EBITDA represents at a 165%.

We would like to thank the dedication of all of our associates who are part of the best digital team in Latin America. We would also like to thank our suppliers for their partnership, sellers for marketplace and choosing our platform and the shareholders for the trust and especially the clients for their preference. These are the main comments referring to our performance in the third quarter of 2017.

We would now like to open the floor for questions-and-answers and for possible clarifications.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now go on to the question-and-answer session. (Operator Instructions) JP Morgan.

#### Q - Olivia Petronilho {BIO 19090195 <GO>}

Good morning, Fabio. Thank you for answering my question. I would like to ask you how you see the beginning of fourth quarter because there are many events with -- Children's Day, that has gone by and how you're preparing yourself for Black Friday? Mainly now that you have a different GMV competition? How are you preparing your best sellers for Black Friday?

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

Good afternoon, Olivia. Thank you for your participation. The fourth quarter to us is the main quarter of the year in terms of sales, and it demands major preparation. So for Black Friday for you to have an idea, we've been preparing ourselves for this event for over one year. Like after last year's event, we started preparing ourselves for Black Friday 2017.

And our expectation is very positive for this event due to the accelerated growth of marketplace that has twofold year-on-year during the last months of this year. We sold everything regarding 2016, so this is a business although it has existed for a short period of time, it has two-folded side and grown rapidly.

In this sense we carried out an event during the month of July with all our sellers and with all our main strategic partners, even our suppliers, because we wanted everybody to engage themselves towards this event, that is of major importance. So all of us are partners in this business for an event to be good, it has to be good for B2W sellers and suppliers. And everybody has major expectations for the fourth quarter, and we want to double the size of our marketplace. And we are giving all the support that is necessary for the resellers, so that they can grow sustainably and that we can make a lot of money using our platform.

#### Q - Olivia Petronilho {BIO 19090195 <GO>}

Thank you very much. When we see your transition from 1P to 3P before the category, that will become -- can you tell us in what position you are? In what situation this transition is right now?

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

Of course. Thank you again for your second question. In reality Olivia there is no magic number in terms of category transition numbers. This is a continuous process that we have set constantly, in what makes more sense to work on 1P or 3P. Great part of this process was executed throughout the first semester. We are highly satisfied with the results because the results of the third quarter show us that we have started to flower -- the results are flourishing now between 1P and 3P. Then, because now we have a hybrid business model, but this is a continuous process.

Therefore, our commercial team -- I've said this 100% of the time, all the items, this is an analysis item per item. So within categories there items that are better for 1P and there are other items that we believe that the sellers would make better business than B2W. So we work with them on the 3P. But this is a transit -- this is a process that is under transition and it's a continuous process.

**Q - Olivia Petronilho** {BIO 19090195 <GO>}

Thank you very much.

**Operator**

Next question Guilherme Assis, Brasil Plural.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Good afternoon, Fabio. Thank you very much for receiving my questions. I have here two questions. I would like to understand regarding the migration, as you just answered Olivia, it is taking place and it is part -- in each product category, you have to see what makes sense. Now in terms of traffic, if we could have an idea because we don't have a lot of market information in terms of traffic. I would like to know that within this process, this first semester will you carry out the transformation, whether it was an accelerated replacement, if this impacted your traffic, if you could give us more information.

And the second question would be, could you tell us how much was the -- what was the expenses with the accounts on which -- the accounts receivable during the third quarter? I really haven't been able to find this in your, the press release. What was your financial expenses regarding accounts receivable?

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

Guilherme, thank you very much for your question, for your participation. Well, traffic has been growing especially, because of the assortment of products that we have added to our site. Therefore, today we have approximately 4.2 million items, this is -- we have a

60% growth vis-a-vis the last year. So the marketplace has strongly contributed to bring more traffic to our sites.

And the evolution of the marketplace with the inclusion of C2C is also going to significantly help us to have more assortment of products, more variety of products to our customers, and of course, increase our organic traffic and more visits to our site.

And what does this mean that, in this quarter we have 700 -- 554,000 new customers here. So we have increased our active base of customers. Regarding your second point, well, I don't have these figures with me right now, I can then give you what the value is of the expenses, but the discounts of receivables, you have to just understand this entry, the natural consequence of the growth of the marketplace as -- with all the volumes that is transaction through the marketplace is -- goes through B2W. We discount these receivable in order to transfer them to the sellers in advance. So it is natural that -- both the volume of discount of receivables and the costs will increase.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

It's clear. Okay, Fabio.

**Operator**

Next question, Tobias Stingelin, Credit Suisse.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Good afternoon. I would -- you were talking about Lojas Americanas. You are adding new item, you are going to use all your existing infrastructure. I would like to know a contrary movement, when will you use this in a more aggressive fashion on the physical structure of Lojas Americanas because the figure are very high. When we have the no cash and pickup, buy and pick up that you were working about categories of volume and margin. If you could tell me, if you have plans to be more aggressive to use better the Lojas Americanas Infrastructure?

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

Thank you very much. We have set the 100% of the times, what are the possible synergy between both companies. One of them would be the one-off to use the stores, to -- the cash and carry. So we have this option for our customer, we have a menu of freight, well we have six options that are different to receive the merchandise. And one of them would be the cash and carry.

The -- here, a dual assessment makes sense to put -- to use it in 300 stores. As you know Lojas Americanas have strong capillarity with over 1,000 stores. An aggressive plan of growth in terms of stores. So for us, this is -- we carry out a constant assessment and we want to see where it make sense to make available these type of services to our customers.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

And do you have the -- an idea of the importance of this because this is a plus that you are yielding, but not -- but you're forced.

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

Of course the customer decides what they want to do.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

How much does this represent for you, do you believe that this is growing a lot because this can be a business opportunity for you.

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

Our strategy is based on delivering as the customers how did they want to pick it up in the store, this is an additional option, as I said, we have six different options for the customer to receive its merchandise. So we can deliver the same day, we can deliver the next day, we can also deliver, that would be a quick delivery that is 50% quicker than a conventional delivery. We do have conventional delivery, that is the fourth option. Scheduled delivery and we also have the cash and carry, you'll pay and then you pick it up at the store. So, there are other points, for example, as you know B2W is a technology reference. So we render services to Lojas Americanas in terms of technology.

Like for example, everything regarding intelligence in analytics and big data and also a part of solutions -- a point of sales embedded intelligence. Another thing that we give support would be logistics and distribution. So distribution as you know is a major challenge that we have in the supply chain of all of our stores. And to date, B2W has the best shipper or shipping company in Brazil with great capillarity. So we can provide the support, so we can deliver properly all of these products.

I believe this is a plus that we can offer to our services, this compliments everything that we do. So within -- and we also have kiosk in the stores. So when a customer walks into a physical store, they can have access to the more than 400 items that B2W makes available. We also believe on B2W, and B2W imports products and Lojas Americanas has an aggressive expansion plan and it wants its own brand -- work with its own brand.

And we also help to import certain types of merchandise. There are number of fronts of synergies and business, I believe that the beauty of both combined business is to have complementary business, so we are able to reach different types of publics through our front and to Internet physical stores and we can deliver through all of Brazil and I believe that in Brazil you only find this through B2W and Lojas Americanas. A 100% of the time we are trying to find synergies amongst these two business.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Just one last question regarding cash generation specifically speaking, during this quarter and the fourth quarter, you have a strong cash generation. You know as a trend and I believe we will burn a lot of cash during the beginning of next year, lower than this year

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during the second half of next year will be better possibly in 2019, when we see the entire year with a full cash generation, is this what you have in mind? is there something that you can say regarding this point?

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

Tobias, thank you for your second question. We are undergoing a very positive trajectory regarding free cash generation. And I believe that we see this in the results that we presented during the third quarter. I believe we evolved 530 million vis-a-vis the same period last year. This is unique, this is uncomparable. And now for 2017, as you mentioned the fourth quarter of the year, it is a cash generating quarter. And I believe that when we see the entire year, we will have a strong evolution, when we compare to 2016.

For 2018, our idea is to continue making progress. So we are following a very positive trajectory and we believe that very fast we will have a company that will be a cash generating company. And as you stated, the first semester is the semester when we pay all of our bills for the end of the year, this is when we have the main sales events of the year.

So possibly yeah, we are going to verify a certain pressure in the short-term when we analyze 2018.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

And 2019, you believe that due to your growth strategy, do you believe in 2019 we would have a positive cash generation scenario for the entire year? Is this your idea?

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

I think we are undergoing an evolution. 2017 will be much better than 2016. 2018 due to everything that has been done and the expectation for the marketplace, I believe will be better than 2017 and 2019, when we compare it to 2018, there is no doubt that we will have a totally new business model, and the results will be extremely positive.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you very much.

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

Thank you, Tobias.

**Operator**

Next question, Marcel Moraes, Deutsche Bank.

**Q - Marcel Moraes** {BIO 20057766 <GO>}

Good afternoon to everyone. Fabio, my first question would be regarding free freight. I believe -- or free-shipping, the market had been evolving to offer less free shipping. But

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at the same time other players are offering free shipping, I don't know, when you see the average of the market. How do you intend to deal with this effect? Do you believe that prime service. Do you believe you will brought in this prime service? Does this focus -- does this address this matter properly? Or is there a risk that in the marketplace you will have to start offering free shipping?

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

Marcel, thank you very much for your question. I believe that you are 100% correct in your statement. For us, the great strategy is our prime market we have to remember what the prime concept is about. It's a loyalty program for B2W and the customer receives certain benefits, one of them would be free shipping in our quick delivery modality. This is when the time delivery is half of the time of our conventional delivery. And in addition to this, twice -- two times a year, they can receive the product the next day and they have the right to exclusive sale and exclusive service from our team, and this is based on an interesting initial investment.

Today we charge an annual fee of BRL79.9, our strategy regarding this matter, it's for prime that in Submarino was an initiative that has existed for over one year, and we have been able to deeply assess the first results group of customers and the results that the business has provided to our customers not only to customers but also to the company. And based on the initial result we felt encouraged to expand to other cities and previously [ph]

we are restricted to Belo Horizonte, Rio de Janeiro and Sao Paulo. So now we have expanded to all the South and Southeast region.

So prime encompasses to 2,500 cities and we have also announced prime in americanas.com. So customers will be able to use prime, subscribe prime during the next Black Friday and the third movement here would be to bring the assortment of the marketplace to prime because the prime was restricted to 160,000 items from 1P, the items that we had in our inventory and the next great wave is to enable sellers to place their assortment of products within prime.

So our expectation is to go to over 1 million items and we started with a 160,000 items in the short-term. And the benefits for B2W are in number, one is because we have a revenue with this type of services, with these type of structures. We have also the login of the customer, the customer pays only one and as of this moment, they can buy and they can dilute the amount that they invested during the subscription. So this strongly reduces cross browsing the figure that we have from abroad, we observe a drop of 90% of cross browsing, so customers become much more loyal to your brand, and with this of course the frequency increases. I can say that the first figure shows that the frequent is two-fold and the spending of the customer also increases.

Just for you to have an idea, the analysis of this first group, we're talking about spending three times higher. And what is the assortment that we sell through prime. We also receive a better margin. So the operation as a whole, when we see that -- it from the

customer's point of view, it's very good, and to the company it also brings extremely advantageous results.

So this is how, we believe that we will be able to add value to everyone. This is an equation that works perfectly for the customer, for the company and also for marketplace service.

#### **Q - Marcel Moraes** {BIO 20057766 <GO>}

And this annual rate of 70, 70 is quite low compared to the same service in other markets. Do you believe that it would be possible to also work with a many of different choices in that case, although you don't have a restriction in terms of frequency of purchases. Now, which will be the evolution of this? Do you think that this amount would be reasonable to cover your logistic costs? My concern is that those who use the platform in a more intensive fashion will burden down the platform. They will no longer be paying for shipping and other problem. So what is your outlook in terms of the evolution of this annual rate? If it is reasonable to cover your costs?

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

Marcel, thank you for your second question. We do believe that yes, we have been operating at the rate of 69-90, since the beginning and as I mentioned previously, we include all of the benefits in this account and this is something that is profitable for the company. The prime customer tends to be more profitable than the non-prime customers. And what is important in this case is the loyalty, the customer will tend to buy with greater frequency increasing spending with us, as we are in control of the assortment, we have a very sound control when it comes to the shipping expenses which would be the main component in this equation. When we include all of these variables in the account, the pros and the cons, this business ends up being better curve, all parties involved.

#### **Q - Marcel Moraes** {BIO 20057766 <GO>}

Thank you. Thank you very much.

#### **Operator**

Next question Franco Abelardo from Morgan Stanley.

#### **Q - Franco Abelardo** {BIO 17416219 <GO>}

Hello, good afternoon to all of you. My question once again refers to the spending. I would like to gain a better understanding of the growth of the 3P. And how much of this growth comes about from the migration of the 1P customer? Is this on the growth due to an organic growth or the migration of that channel? I believe that you mentioned you have more than 750,000 new clients in the last 12 months. I don't know which was your customer base before. But what is implicit is that the entry of these new customers or the spending of these new customers have been lower, why is their spends lower? And if what I said makes sense, if there is a migration of channels or after there is no longer that drop in 1P, you can continue to have 3P with a twofold quote year-after-year.

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

Thank you for your comments Franco. We haven't observed any significant change in the customers' spending due to this transition from 1P to 3P. And our expectation going forward is that we will continue to double the size of this business. We were able to do this at a very accelerated pace, it has not been a simple task. It doesn't simply depend on the decision of migrating sales from one side to the other. In fact, we do have to have the right sellers on our platform, so that we are able to comply with this demand that tends to be very high. And what we can say is that we have been able to increase the size of the marketplace twofold without hampering our service levels. And the translation of this value proposition that we're able to offer to our sellers is an organic growth and sales in a sustainable way.

For us the seller is a partner, one of the great partners of this platform along with B2W. Therefore, it becomes almost mandatory to offer full support, so that the sellers can grow with us and maintain that pace of growing twofold constantly. In the 8, first months of 2017, we were able to sell everything we sold in the year 2016. When we look at on the marketplace as a business unit, we are referring to a business that sells almost BRL4 billion per year.

And I don't think there is a history that can be compared to this of creating a business from scratch and having this enormous volume in only four years. All of this growth has been organic and it is thanks to our ability of working very closely with sellers and building this business alongside with them. This is based on the differentials of our platform. We now have the highest and most qualified traffic on Internet. This allows sellers to have access to the most beloved brands in Brazil. We offer full logistics and distribution support, no other company can do this in Brazil, only B2W. In fact this is something that truly sets us aside.

We have structured our platform to be able to face the logistic challenges posed by the country and we're able to offer support to sellers in marketplace. This also extends to the support given to customers, this is an emblematic, we have enormous expertise in the country in resolving the problems of our sellers. And this decides all of the other digital services that we are already offering, back-office technology, the platform for announcements, intelligent pricing. And something that no other platform can offer is the extremely qualified commercial team that we have.

We have been working with them since 1999. We have enormous expertise in buying and selling merchandise. And at present our commercial team continues to be a team that is dedicated to buying merchandise from suppliers. But most of their time, they also offer support to sellers.

## **Q - Franco Abelardo** {BIO 17416219 <GO>}

Yes, that makes a great deal of sense. I did not understand something in your comment. If you have an increase in your customer base, I think that you have a significant increase in your customer base. Doesn't this means that the average spending per customer is dropping or is my interpretation wrong?

Another question if you allow me, how much of the free shipping does B2W offer at present? And if B2W offers or is planning on offering some sort of subsidies to the sellers to work with this free shipping or to follow the example of some competitors who have worked with this very aggressive mechanic. I know that you'll have the prime, but I imagine that the penetration of prime is still quite low. Before it becomes truly relevant which would be the amount of free shipping that would be acceptable to B2W?

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

Franco, it is important to consider that this addition of new customers has taken place in the last 12 months. So it is part of a different growth curve, especially when we look at the growth of the third quarter. Regarding your second comment, we truly believe that our value proposition for the sellers includes different elements. We're not only thinking of subsidies for free shipping. We believe that this strategy would not be sustainable through time.

At present through a combination of services, we are able to offer something that is differentiated not only to sellers, but also to our customers. For our customers who are going to grow very strongly, we're going to expand the prime system which is our loyalty program and customers will be able to access to our program where they will pay an annual rate, and based on that they will be entitled to buy for 12 months, with that benefit of the free shipping, and especially with the fast delivery which is what truly sets us aside. And as we have 100% of the logistics under our control, we are able to offer this and guarantee that this differential will truly materialize, if I guarantee that I'm going to deliver in two or three days of delivery will be made during that term. And this is what sets our platform aside. We're also able to offer this to the seller through the deliveries from B2W when we bring together the B2W delivery and the prime loyalty program, we believe that this is a value that has still not been quantified in numbers in the company.

Now, if we look at 2018, this will contribute significantly to our cash generation trajectory and to the growth of the marketplace. And in marketplace our share is up 36%, well above our initial estimate that was to work with 30%. And for 2018, the commitment is that marketplace should have a share of more than 50%. All of this will become possible if we deliver that best value proposition both to the customer and to the seller.

**Q - Franco Abelardo** {BIO 17416219 <GO>}

Thank you very much.

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

Thank you.

**Operator**

The next question is from Thiago Macruz from Itau BBA.

**Q - Thiago Macruz** {BIO 16404924 <GO>}

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Good afternoon to everybody. My question refers to the marketplace. We have assessed other markets. And in our opinion I don't think there is a differentiation in the large markets of Latin America based on the size of the seller. And we think that this is a reality of the Brazilian market. I would like to hear your opinions. Is it natural for the Brazilian market to develop towards this type of growth based on category and not only on seller? Or will there be a different perception in Brazil that it is possible to have different pricing for either larger or smaller customer? That is my question.

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

Thank you, Thiago for participating. Our region does have some specificities of course, and those who are working in the marketplace are working with three factors in the pricing. The size of the seller, the industry, the categories involved and more importantly the payment in installment. Now, if you're paying in 12 times, it will cost you more than if you're paying in two times. Now these three elements together will have an impact on our collection mechanics compared to what happens abroad.

**Q - Thiago Macruz** {BIO 16404924 <GO>}

Thank you. Now to continue on with the question, I understand that these are the main differences. Therefore in your opinion, we should remain with this differentiation based on size and not on payment terms, but based on the size of the sellers, do you think that this should remain as it is?

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

Yes, we do believe that it should. That this will continue to be the main elements that are part of our marketplace.

**Q - Thiago Macruz** {BIO 16404924 <GO>}

Thank you.

**Operator**

The next question from Maria Paula Cantusio from BB Investments.

**Q - Maria Paula Cantusio** {BIO 18652439 <GO>}

Good day to all of you. Thank you for taking my question. Could you speak about the gross margin dynamic during the first quarter? You had mentioned that the increase in the marketplace would lead to a trough in the gross margin. And in truth, you do have a lower gross margin when we look at the year. But quarter-after-quarter there is an increase. Is this due to the greater share of services? Or does it have something to do with what you mentioned in the release, that 40% of the shipping paid is from third-parties that is outsourced. And if you could speak more about the C2C. How are you going to work with the accreditation of the sellers, the quality of products and the expeditiousness in delivery to preserve the reputation and image of your company and in the complaint side?

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

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Thank you, Maria Paula for participating. Regarding your first question and the gross margin. During the first semester, we had a contraction of 1.3 percentage points in the margins and this is due to the transition between the 1P and the 3P. In the short-term, we ended up having that negative effects of the phaseout of the items that we have decided to migrate. Now when we look at the third quarter, we can observe an evolution in our gross margin of 0.3 percentage point. And it is doubtless that the main factor that has contributed to this evolution in the margin is the marketplace, and the growth of the marketplace.

The collateral effects of this transition regarding the company results were all concentrated in the first semester, the third semester already shows this improvement in the gross margin, but especially in the EBITDA margins, considering the significant decrease in expenses, 84 million of reduction in expenses for the quarter and 150 million for the first nine months of the year, already showing or signaling to a completely different financial model, this hybrid model between 1P and 3P which for us will represent a very interesting evolution for the financial model of the company.

Now, in terms of our marketplace growth strategy, we do have the launch of the C2C. This is a very interesting business in our opinion, we can end up having practically a limited assortment. We do have the ability to drastically expand the company assortment. At present it represents 4.2 million items and with the coming into operation of C2C, the sky is the limit. Therefore the customer who could only purchase will now be able to purchase and sell. Everybody has something at home that they would like to sell on the Internet. This was a demand that came from our customers and the initial feedback have been extreme -- has been extremely positive.

And for us, this represents a very positive operation, It brings in organic traffic. Traffic that is not paid for. It increases the relevance of our size and also create greater engagement and commitment with our customers. And the point you mentioned, we are very concerned in terms of our service levels, when we look at our marketplace, it is the best marketplace in the market when it comes to service levels, and this is what we wish to maintain. And we will continue enhancing with the coming into operation of C2C. We always work very stringently to bring in the sellers from the marketplace and also those who will be selling used products in the C2C system.

**Q - Maria Paula Cantusio** {BIO 18652439 <GO>}

Fabio, thank you very much. If you allow me to follow-up on your question on margin. We can expect a more normal base of comparison to the third quarter of 2018, when we will speak of the 1P platform and margin for the third quarter?

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

Well, we do have a hybrid model at present, we're always looking at that combination of 1P and 3P. This third quarter allows us to already observe better margin vis-a-vis the first semester. Once again due to the growth of marketplace, now in 2018, what we expect is to continue to grow the marketplace significantly and our expectation is to also have an evolution in the company's financial model.

**Q - Maria Paula Cantusio** {BIO 18652439 <GO>}

Thank you very much and have a good afternoon.

## Operator

Next question, Gustavo Oliveira, UBS.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

Good morning. Thank you for answering my question. I have three questions. In your press release, you said that your distribution operations delivers 97% of your direct sales and 40% is through third-parties. And when will you have to increase your CapEx because the volume is increasing?

If you could give us a CapEx trend. And -- but where -- will there be a reduction of CapEx?

The second question would be prime and submarino. What is the penetration that you have in the three cities that you mentioned, because I know how quick this rollout will be and how quick the growth will be? And the first question of the call regarding events, at the end of the year. Is there some inventory guarantee that the sellers have right now for you? Thank you.

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

Gustavo, thank you very much for your participation. The first point is regarding CapEx, we already sense a reduction, significant reduction in CapEx in year-on-year and absolute values, but also in GMV percentage. Therefore, we do not have a current expectation of increasing the CapEx to be able to provide any type of services to our sellers. Therefore, the platform that we have developed, built and invested in the past years, we understand that this platform is able to support the growth of our business as a whole. And this, of course, goes to the marketplace is doubling size year-on-year.

Regarding your second point, that would be prime. I still cannot share with you or disclose the share -- the penetration prime share. What I can say is, some indicators that will be a frequency indicator. The prime customer buys twice as much as a non-prime customer, and spending is three times higher. So these are two variables that are extremely important that encourages -- encouraged us to expand (inaudible) of the company made this decision, there is no doubt that this business is having positive results, and we have strong expectations of expanding the prime penetration, the quickest possible.

And now regarding your third question, when we have a strong partnership with our sellers. So we have prepared ourselves for this event for over one year with everybody, not only sellers but also with our suppliers and buyers of technology. And we have engaged all our team to surf this gigantic wave that is Black Friday together with us.

So we have our market share, our share is 40% in Black Friday. We have a major share, so in 100 hours, we can sell, what is equivalent to sales of one month to surf this wave.



Sellers have to be prepared and then in this sense we have carried out a number of events. And we have worked closely to our sellers, so they can surf this wave together with us. So this is where we understand that there is a guarantee that everything will work out just fine.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

A follow up and another question. Now that you're in the marketplace, a number of SKUs. These sellers are already participating in the B2W Delivery, right?

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

Correct. To be enabled in prime the seller has to hire B2W Delivery service because there is a matter regarding service level to guarantee to our customers that I'm going to deliver the next day or it will be a 50% faster delivery than of a traditional delivery. It is compulsory to be -- I have to control this process. And at the end of the line, it's better for everyone, just for you to have an idea, the service, the B2W Delivery, service is 30% cheaper than the market service. And 40% faster than the normal delivery. So our customer has access to differentiated level of service and the seller can sell much more using B2W Delivery system, and they have their product assortment available in our prime product.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

So how are the provisions regarding prime?

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

This is an optional service, we can provide storage last mile or less mile. Thank you very much, Gustavo.

**Operator**

We bring our Q&A session now to an end. I would like to give the floor to Mr. Fabio Abrate for his final remarks. Mr. Fabio, you have the floor.

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

I thank all of you participating in our webcast and conference call. I would like to invite all of you to see the great sale in the brands that are most liked in Brazilian Internet. Submarino, (inaudible) SouBarato. Our Investor Relations team is at your disposal and have a very good day.

**Operator**

B2W conference call has come to an end. We thank all of you for your participation. Have a good afternoon and thank you for using Chorus Call.

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