

## Q3 2012 Earnings Call

### Company Participants

- Fabio Abrate, IRO

### Other Participants

- Andrea Teixeira, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good afternoon. And thank you for standing by. Welcome to the conference call of B2W - Companhia Digital to announce the results referring to the Third Quarter of 2012. Today with us we have Mr. Fabio Abrate, Investor Relations Officer; and Mr. Murilo Correa, Investor Relations Officer of Lojas Americanas.

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

The replay of this event will be available right after its end for one week. It's also important to remind you that today's event has a support presentation that is available at the address, [www.b2winc.com](http://www.b2winc.com).

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

Forward-looking statements are not guarantee of performance. They involve risks, uncertainties and assumptions because they refer to future events. And therefore, depend on circumstances that may or may not happen. Investors should understand that general economic conditions, industry conditions and other operational factors may affect the future performance of B2W and then lead to results that will be materially different from those expressed in such forward-looking statements.

Now, I would like to turn it over to our speaker, who's going to start the presentation. Please, Mr. Abrate, you may start.

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

Good afternoon, ladies and gentlemen. I thank you all for your attendance to our conference call to announce the earnings release of the Third Quarter of 2012. In the Third Quarter of 2012, B2W recorded a growth of 21.2% in the gross revenue of the controlling Company as compared to the Third Quarter of 2011, totaling BRL1.234 billion in sales combined with a growth of 20.1% in EBITDA, indicating a significant progress.

This new level of growth shows an evolution of all operational indicators of all platforms of business of the Company. We understand that we are on the right track and capturing the benefits of the resources and time invested in the integration of our platforms, both logistic and technological.

We want to be closer and closer to our customers, providing a better shopping experience in our websites and offering faster and more effective delivery services. In line with the strategy, we have opened four new distribution centers along the month of October 2012 and we are ready and optimistic for our end-of-year sales.

Now we are going to start our presentation, where we are going to comment our results and highlights for the Third Quarter of 2012. Starting on slide number 5, you can see the evolution of gross revenue. In the Third Quarter of 2012, the gross revenue of the controlling Company reached BRL1.234 billion in contrast with BRL1.018 billion in the Third Quarter of 2012 (sic -see slide 5, "2011") with a growth of 21.2%.

The consolidated gross revenue reached BRL1.369 billion in the Third Quarter of 2012 in contrast with BRL1.163 billion in the Third Quarter of 2011, a growth of 17.8%.

On slide number 6, you can see the evolution of the net revenue. On the Third Quarter of 2012, the net revenue of the controlling Company was BRL1.118 billion in contrast with BRL925 million in the Third Quarter of 2012, which represents a growth of 20.8%. The consolidated net revenue reached BRL1.226 billion in the Third Quarter of 2012 in contrast with BRL1.044 billion in the Third Quarter of 2012 (sic; see slide five "2011"), a growth of 17.4%.

On slide number 7, you can see the evolution of the gross profit. On the Third Quarter of 2012 the gross profit of the controlling Company reached BRL251 million, a growth of 33.4%, as compared to BRL188 million of the Third Quarter of 2011. In the consolidated, the gross revenue of the Third Quarter of 2012 was BRL292 million.

In the Third Quarter of 2012, the gross margin of the controlling Company was 22.5%. When calculated as a percentage of the net revenue, a growth of 2.1percentage points as compared to the gross margin of 20.4% from the First Quarter of 2011 -- sorry, in the Third Quarter of 2011.

Now on slide 8, in the Third Quarter of 2012 the EBITDA of the controlling Company reached BRL72.4 million, a growth of 20.1% in contrast with BRL60.3 million in the same period of the previous year. In the Third Quarter of 2012, the consolidated EBITDA was BRL82.5 million. In the Third Quarter of 2012, the EBITDA margin of the controlling Company was 6.5% when calculated as a percentage of the net revenue, reaching the same level as the Third Quarter of 2011.

On slide 9, in line with the strategy of us being closer to our customers, we highlight the opening of four new distribution centers. In the month of October, we opened four new distribution centers, which are located in the states of Sao Paulo, Rio de Janeiro, Minas Gerais and Pernambuco.

The new distribution centers will guarantee more speed in the delivery of products that are bought on the websites of the Company and better customer service.

On slide number 10, you can see the significant evolution of the main public ratings for complaints. In the first nine months of 2012, when we compare to the same period in the previous year, you can see a significant evolution in the numbers that are published in terms of complaints from customers, reflecting a major evolution of our operational and logistic processes, which are the foundation for our growth.

In this period, there was a significant reduction of 59% in the number of complaints that were registered at SINDEC, the National Consumer Defense System. As to the number of complaints recorded at PROCON, the Foundation for Protection and Defense of the Consumer in Sao Paulo, there was a significant reduction of 51%. We can also note an expressive improvement in complaints indicators at TJRJ, the court of justice of Rio de Janeiro, with a reduction of 46%.

Moreover, we also highlight the evolution with regards to the complaints in the website Reclame Aqui. In the indicator of the past six months, Americanas.com, Submarino and Shoptime are the online retail brands with the best service ratings. All the three websites had their reputation classified as "good" in this period.

On slide number 11, you can see the award "Reclame Aqui" in terms of service quality. B2W is chosen in three categories of the award. Reclame Aqui Service Quality, another important attainment in terms of customer service was the recognition that B2W received through its brands.

Submarino won the award for service quality in terms for being virtual stores, major operation and electric-electronic retail. And Submarino Viagens was the winner in the category tourism and leisure.

The awarded "Reclame Aqui Service Quality" was created with the purpose of encouraging companies to seek excellence in service and focusing efforts to improve the relationship with new consumers, reaching a high rate of efficiency in solving problems.

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On slide 12, we talk about Americanas.com, chosen the favorite brand by the people who live in Rio. Americanas.com was elected on October 31st by the column Marca dos Cariocas from O Globo newspaper as the favorite online purchase brand by consumers of the city of Rio de Janeiro, which makes us quite proud because we know in such a wonderful city it's not easy to take people to the computer.

As of slide 13, we talk about some pillars who make B2W the second largest pure player in digital retail worldwide. On slide 14 we highlight the main competitive differentiation we have created through a totally integrated technological platform. Throughout the last two years we have strongly worked and invested many funds to integrate our business platform and to create a solid operating infrastructure that allows the Company to operate through a multi-channel, multi-business and multi-brand strategy.

The benefits of funds and time invested in integration of our platforms in terms of logistics and technology are already being captured. We have the best technological and logistics platform for digital, retail in Latin America and we are considered by the Businessweek magazine was one of the hundred main companies of technology worldwide and one of the three main technology companies in Brazil.

We are continuing to invest to transform the consumer experience, offering the best service and customer service to our customers.

On slide 15, we highlight the unique operations model of the Company, having a multi-channel, multi-business and multi-brand structure. We offer more than 35 products and service categories with distribution channels on the web, sales over the phone, catalog, TV and kiosks. We have one of the most powerful and mostly loved digital retail chains in Latin America, including the Twitter of retail with the largest number of followers, which is Submarino.

Yesterday Submarino was one of the most commented topics on Twitter with the Invasao Sub -- Invasion of Sub campaign.

At the end of 2011 we launched submarino.com.br. This website with an important channel to sell products that are on sale. This website has had an excellent performance. We have a great opportunity for growth. In addition, the Company continued to invest in the finances for the consumer tickets, trips and video retail.

We also, on slide 16, highlight the dominance we have in the market of electronic retail in Brazil. We have the largest customer base in Latin America and we are the leaders in 35 product categories.

Slide 17 shows that we have -- we highlight the main asset we have, the strongest and more successful digital team in Latin America; everything together with a strong recruitment and development of talent program. Our team is extremely motivated and committed with the great dream that we have for the Company in order to capture the best market opportunities and e-commerce in Brazil.

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Before going to the Q&A session, I would like to highlight our investment plan, on slide 19, for the next three years. We are going to invest BRL1 billion in 2013, '14 and '15 in technology, innovation and logistics. We will open more than 10 distribution centers in the next three years. We want to be closer to our customers. We want to be the best purchase experience, offering best products, best prices and the best browsing experience in our websites, providing the entire process of purchase.

We want to offer the best delivery service, being closer and closer to our customers in their homes, delivering in the fastest and more reliable way. We want to provide the best customer service, delivering great experience for our customers. We want to be agile enough and efficient in the solution of any problems that may happen and we want to be in the mind, homes and hearts of our customers.

## Questions And Answers

### Operator

Excuse me, ladies and gentlemen. we will now start the Q&A session. (Operator Instructions).

Gustavo Oliveira, UBS.

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

I have two questions. With regard to working capital, first, your stock level has increased in the last two or three quarters. And I understand that this might be connected to the fact that you are now increasing your network of distribution, you now have 4 distribution centers and you plan to open 10 new distribution centers in the next three years. What inventory level do you find ideal to work with in the years to come or when you already have the logistic network more complete? And if you believe that if this will drop a bit, to what level it will drop?

And the second question is about receivables. There has been an improvement, quite interesting actually, in this last quarter and your gross margin also has improved. I would like to understand if you have a better mix already or is there a lot of changes in the mix that is being done that could lead to future improvement in trade receivables? Thank you.

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

Good afternoon, Gustavo. Thank you for attending the call. With regard to your first question, when we talk about working capital, it is always important to look at the three variables that make up this indicator; inventories, suppliers and receivables. We always look at the topic as a whole. Specifically about inventory levels, you are absolutely right, because as we sell more we need to have more goods in stock and also related to that is the new distribution centers. Because as we open new distribution centers in this initial stage of maturing of these distribution centers, we do carry higher inventory levels.

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So I would think within the curve of -- the learning curve of these distribution centers, this tends to be a decrease. But that will have to be seen along with the other prospects for future growth of the Company, because, as you start selling more, you have to reposition the stock levels so that there will be no shortage of good for our customers at all, because we want to really be able to meet this incredible demand of Brazil's e-commerce.

As to the second point, I understand you were referring to the receivables from credit cards. Undoubtedly, there has been an improvement in that and one component -- if this is one component of this improvement for working capital as a whole, in two weeks we have evolved a lot when compared to the same period in the last quarter or from the quarter -- the same quarter in the previous year.

This is also partially due to the integration of our platforms, because now we can be more assertive in terms of offering the correct number of installments at the correct category for the customers that require certain number of installment in order to be able to purchase such items. Another important point to consider is our increased share of sales that are cash, which also contributes to that variable.

And when you talk about gross margin, actually, our sales growth, I would like to remind you, they have grown by 21% when compared to last year, not including the growth of the gross income. And therefore, there has been a 2.1% improvement in our gross margin. So it's 2.1percentage points. So it's hard to say a single measure or action we have been -- we have taken to result in that. It's a whole set of variables that have resulted in this improvement that you mentioned.

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

So you cannot say yet that the competitive scenario is better, it's more favorable. So you are doing all this within a very stiff competition scenario?

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

Yes, Gustavo, you are absolutely right. The competition is still very stiff and the evolution we've had is as a result of our in-Company work. It's something we've been doing for quite a while now.

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

In terms of assortment of -- what is the mix of electric and electronics and what's the average sales ticket?

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

In terms of assortment, Gustavo, our strategy will always be to have the assortment that customers want us to have. Our strategy is to be closer to the customers. And that includes having what customers want at the prices they are willing to pay for and in the payment terms that they are willing to pay, either in number of installments or discount for cash payment.

As for the average sales ticket, I don't believe we can attribute the evolution of our results only to the sales ticket, because our results are consequence of an improvement in all our operating indicators, which also include the average sales tickets.

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

Okay. Thank you very much.

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

Thank you.

**Operator**

Tobias Stingelin, Santander.

**Q - Tobias Stingelin** {BIO 1557190 <GO>}

Your delivery times on average, is it already in line with the market now?

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

Our delivery time I can tell you that it is in line with the market, even better.

**Q - Tobias Stingelin** {BIO 1557190 <GO>}

So along the Third Quarter -- so on average your recovery, you are already in line with the market. And now in the Fourth Quarter, do you have any gain because you are already at the same level as the market?

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

Well actually, Tobias, you see going back to the market is something very surgical that has been -- that we've been doing gradually and it's part of a whole process of improvement of our operational indicators, which obviously goes through the issue of logistics and delivery time.

**Q - Tobias Stingelin** {BIO 1557190 <GO>}

Okay. Now -- for your level of complaints that has been falling consistently for quite some time and you can see all the consumer defense agencies. Why do we still see other operational high to -- shouldn't it be going down because you have already paid everything?

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

Tobias, this line, specifically, it still reflects our past that you know very well. And certainly in the future as we evolve, as our operational indicators evolve and we have been evolving. That is already the Third Quarter that we are reporting significant evolution with the leading consumer defense organizations. The trend is for that line to improve along time.

**Q - Tobias Stingelin** {BIO 1557190 <GO>}

So today you still have liabilities from back 2010. It's not that you are no longer generating liabilities?

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

Well those liabilities are still related to problems we had in the past.

**Q - Tobias Stingelin** {BIO 1557190 <GO>}

Okay. And another question, would there be opening of new distribution centers? Do you own your -- do you see -- do you think -- aren't you considering renting it or something? Is it all part of the CapEx? If we see margins improving depending on net sales, you have a tax benefit -- can you give us an idea of how -- about all these factors?

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

Well as to the opening of the distribution centers, it doesn't change our strategy with regards to CapEx, because they refer to what is inside the distribution center. Our model still is to rent distribution centers. So these four distribution centers that we opened in October 2012, nothing changes in relation to the other three ones we already have.

As to the potential tax benefits, this is a point which is secondary for us, Tobias. Our strategy is and will always be to be the closest possible to our customers. So if we made the decision of opening these distribution centers in Sao Paulo, Minas Gerais, Rio de Janeiro and in Pernambuco, this is because that's where the consumer market is right now and this is a measure that we created and adopted in order to serve these customers better and better.

**Q - Tobias Stingelin** {BIO 1557190 <GO>}

Thank you. I understand it make all sense. But at the same time you can negotiate with the government, saying, "What can you give me back? Can I take on --" Do you have any idea about that, that type of negotiation?

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

Tobias, I repeat, the important for us at the end of the day will always be our strategy of being closer to our customers.

**Q - Tobias Stingelin** {BIO 1557190 <GO>}

Okay. Thank you.

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

Thank you.

**Operator**



Irma Sgarz, Goldman Sachs.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

I have a question about financial expenses that were slightly better as compared to sales in this quarter. But not really that much. What is your vision with regards to this line? And I would also like to confirm where do you book the discount that you give when you make the promotions in terms -- if you pay at the bank, you have a 15% discount.

I've been seeing that very often in the past three or six months. And obviously this has driven more sales to being cash. And so, where do you account for that? Maybe it's not on financial expenses.

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

With regards to our financial results, the important thing is to remind you of the investments that we have made so far along the history of B2W. These investments were all centered on us being closer and closer to our customers and these investments were for the integration of our whole technology platform. So we are starting to capture all these gains from now. And this motivates us to invest more and more within the maturity curve of B2W and in retail in Brazil as a whole. Obviously, all investments have driven us to a level of investments in the Company, which leads to the numbers that you know very well.

With regards to the discounts that depend on conditions, they are the proof or the result of customers who decide the pay at the bank cash. And today they are booked as part of the financial results of the Company.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

Thank you.

**Operator**

Andrea Teixeira, JP Morgan.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

I have two questions. First, Fabio, is about the performance of the controlled companies and subsidiaries. It seems that it's a bit lower this year -- the quarter, actually, than last year. And I have noticed that because of the evolution of the parent company, a growth of 20% in the EBITDA and 4% in the consolidated.

So is that related to this new investments and new banners, new e-commerce platforms or to any financial structures that you have in a special purpose company? I am trying to reconcile that. I know you don't publish the results of tickets and travel company. But if you could give us an idea about Submarino card and how these other businesses are evolving, in this case, it would be nice?

And the second question is about the level of sales and administrative expenses. I know there has been a lot of change in this quarter. If we could think of now you are -- how you are allocating this expenses of new distribution centers and how we should project that from now on, because we are on a SG&A over net revenue with x [ph]. I mean, should we maintain this level and also what is this about?

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

When we talk about subsidiaries, it's important to remember that B2W operates with a multi-channel, multi-business and multi-brand strategy and within this context of offering all we can to our customers, the subsidiary companies play a very important role in our business structure.

It's also important to remember that within this role that we call subsidiaries, that are some industries and markets that are a bit different from the parent company business. And they are subject to seasonality and they have some specific characteristics. So when we look at the results of the Third Quarter, there have been impacts in that regard given the seasonality of some of the businesses of our subsidiaries.

As to your second point, which is Submarino finance, this is a business that indeed is doing quite well. Today a Submarino card has a share of 40% of the website of Submarino, which is quite relevant to us. So this is an operation that follows within our scope of offering all kinds of products to our customers and financial services is part of that. So this is totally in line with our broader strategy of being close to customers.

As for expenses, it's important to say that all movements of that cash goes out or disbursements or expenses, disbursements in terms of investments, are seen based on the return of this money that is being invested. In line with that, in the Third Quarter we are obviously harvesting the fruit of the current level of expenses. And of course there is an impact because we have opened new distribution centers.

So as we increase sales and gain market share, therefore, advancing on the market, of course delivering a better level of service to our customers that will continue to buy with us, our operating indicators will improve. And, as a consequence, our financial indicators will also improve.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

Okay, Fabio. So just one question; if we try to summarize this profitability part, the EBITDA margin -- and in your case of the parent company -- is flat and the consolidated is slightly below last year, 90 basis points below last year, could we think of the same type of evolution in the next quarters, including the seasonality? I know that for the next quarter we should maybe think of a drop and then next year you will be able to improve your margin given an increase in revenues. How can we think from now on of margins?

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

In terms of EBITDA margin, it's important to say -- to talk about absolute values. And we have grown by 20% year against year. So this has been a gross revenue growth along with

the growth of gross income, along with an EBITDA margin growth. So this is important to consider.

In the future as we advance with our strategy of offering better levels of service for our customers -- of course customers will continue to buy from us and we will also advance and gain more market share. So there will be a dilution of most of our expenses and we will advance on this EBITDA margin topic.

Another important point for years to come, which makes us very optimistic, is the new category that we want to implement in 2013. We don't have anything to detail for that. But in 2013 we'll start working strongly on apparel and shoes and footwear. And this category will add to the pool of goods that we offer to our customers. And I am absolutely sure that we'll have a great contribution to our results in terms of margin.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

Okay. Thank you.

## Operator

Excuse me, if there are no further questions, I would like to turn it back over to Mr. Fabio Abrate for his final considerations. Please, Mr. Abrate?

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

I thank you all for your attendance to our conference call and webcast. We would like to take the opportunity to thank the dedication of our employees and also the support and trust of all our customers, suppliers and shareholders. I would also like to invite you to visit the website of Americanas.com, Submarino and Shoptime. There you can enjoy our offers to do your shopping -- to shop for Christmas.

You can also visit our website of travel tickets outlet and movie rental, all of this with the convenience, ease and safety that only B2W can offer. In addition to that, our Investor Relations team is available to answer any additional questions you may have. Thank you, all and have a good afternoon.

## Operator

B2W conference call has now ended. We thank you all for your attendance and have a good afternoon.

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