Y 2016 Earnings Call

Company Participants

- Eduardo Galanternick, Executive Director of E-commerce
- Fabricio Bittar Garcia, VP of Operations
- Frederico Trajano Inacio, President
- Roberto Bellissimo Rodrigues, CFO and IRO
- Unidentified Speaker

Other Participants

- Fabio Monteiro, Analyst
- Guilherme Assis, Analyst
- Joao Mamede, Analyst
- Richard Cathcart, Analyst
- Thiago Macru, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to Magazine Luiza's Conference Call referring to the Fourth Quarter of 2016 Results. At this time, all participants are connected in listen-only mode. Afterwards, we will have a question-and-answer session when further instructions will be given for you to participate. (Operator Instructions).

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

Frederico Trajano Inacio {BIO 17269235 <GO>}

Good afternoon, everyone. Thank you very much for participating in our call. It's a great pleasure for me to be here and all the Executive Committee on Magazine Luiza to answer your questions. I would like to talk about the result of the fourth quarter, and in my view, they consolidate and reaffirm the effectiveness of our initiatives, both the short-term ones such as the ZBB HEMT [ph] programs as well our focus on market share gain as well as the long-term one focused on our strategy for digital transformation.

We evolved [ph] quite a lot in practically all the relevant indicators that are tracked by the financial market, sales, dilution of expenses, reduction of the net debt due to the operating cash generation, with the improvement of our working capital as well. But I would like to say that we're also involved in indicators that the market doesn't track but that are, in my view, as important as the ones that I have described.

I would like to mention the evolution of our organization (inaudible) environment. Our own team tracks this and afterwards we classify among the best companies to work for and also the client satisfaction index that we track. Not only this one, but also the (inaudible) that had an improvement in 2016. It's very good to see these indicators improving.

However, what really brings confidence are all the moves that we did to implement our digital transformation strategy, we want to do what no other company that I know of in the whole world has achieved, which is a transition from analogic company to (inaudible) company. And in this project, we have five pillars and we evolved then practically all of them, digitalization of brick-and-mortar stores, marketplace, multi-channel, our digital culture and all the endeavors to include our consumers digitally. What did we do?

We placed Wi-Fi in all the Magazine Luiza stores. We made available mobile devices to the whole team or practically the whole team and the mobile (inaudible) that is a checkout device. And for all our clients with the big success in our stores in 2016, we launched our marketplace operation. We evolved the -- rather success already APP [ph] mobile and we received due to our APP mobile an award of Google as one of the five best apps in the market, not only retail but the whole market, one of the best apps for Android. And we were very happy with this award that mobile was very important for our online growth.

We did a lot in a very short time and we're not going to stop here in our digital transformation. E-commerce in Brazil represents only 3% of the overall sales of retail as regardless of economic crisis the online growth in the Brazilian market will continue to be a major one. And you should not bet against the growth of e-commerce in Brazil. And we feel at Magazine Luiza that we will benefit from this growth, but also because of our strategy of digital transformation. And we are sure that we will be one of the big players in this market.

There is a lot to be done in 2016. In May, we will be completing 60 years of our company in 2017. And we feel that we are ready and very much focused to increase the most important pillar of our platform, the marketplace one [ph] and increasing our product offerings.

We are working so that our platform may be perceived by our partners as well as by our consumers as the best marketplace platform in Brazil. And we are doing is extremely carefully because of the reputation of the company that is 60 years old, that has no has been focused on our consumers and the quality and the level of service that we deliver.

This is another transformation amongst others that we have already carried out over our history. The only thing that has not changed in the 60 years is that we always change. We have the soul of a startup and with 20,000 people working for the company. And I would like to take advantage of this moment to thank everybody in our team who worked in this tough year 2016, our clients, our analysts, our partners, our shareholders, everybody, for the trust and the partnership.

And Roberto Bellissimo now will be talking in detail about the figures of this year. And afterwards, I will come back and talk about the expectations for 2017 and our summary in a nutshell, and once again we will be opening for questions. Thank you.

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Good afternoon, everyone. Thank you for participating in our call. We start on slide number two with the main highlights of the fourth quarter. We grew our gross revenue by 14% on a year-on-year basis. This is the biggest growth in the last few quarters in our brick-and-mortar stores. Same-store sales grew 16%, accelerating vis-a-vis the third quarter that had already been positive, and all that increasing our gross margin and very -- in a sustainable and consistent fashion.

Retail in this quarter, according to the IBGE, dropped by 6% and regrew by 14%, that is to say, a difference of 20 percentage points vis-a-vis the market. And the biggest highlight is in e-commerce, growing over 40% and the participation of e-commerce went from 21% in the fourth quarter of 2015 to 26%, increasing 5 percentage points in our total sales during this period. EBIT grew by 8%, so our e-commerce 5x the growth of our EBIT.

Another highlight is our operating expenses line, we diluted more expensive than ever. The expense dilution increased over the year. We diluted 2.3 percentage points and we reached the level of SG&A of 22% over our net revenue.

And very much thanks to the work done by VBB [ph] at the beginning of the year and the matrix -- management of expenses during the year. So we more than doubled our EBIT to BRL127 million, plus 28%, and the same margin of the third quarter showing that it is consistent and recurring, one of the highest EBITDA margins of the company since our IPO. And we reached BRL46 million in net income.

In the quarter, we also had very good cash generation over BRL658 million in the quarter and the evolution of our working capital of BRL570 million, a reduction of BRL570 million. And we also reduced our net debt for the quarter from BRL750 million to little more than BRL100 million. Net debt-EBITDA -- adjusted EBITDA dropped to 0.2. And both the indebtedness and the leverage are at the lowest level since our IPO.

And lastly, we talk about Luizacred. The NPL index over 90% past due [ph] dropped 3.2 percentage points in the year reaching 9.5%, one of the lowest levels ever of delinquency -- historical delinquency of Luizacred. And so, we had BRL25 million in net income in Luizacred with an ROE of 19%, 20%.

On the next slide, for the whole year we grew 8% in our gross revenue. The market dropped practically 8%, which means that there is a very big share gain. In the year as a whole, the participation of e-commerce went from 20% to 24% growing by 32% in a market that grew 7%.

We diluted 1.3 percentage points in our operating expenses, over BRL120 million in savings in our expenses for the year, we grew our EBITDA over 50%, 7.5% EBITDA margin and BRL87 million in net income expansion.

We -- in terms of working capital for the whole year, we reduced our leverage 1 to 0.2 and Luizacred reached over BRL100 million in net income for the year as a whole.

On page four we show the evolution in the number of stores, 800 -- exactly 800. We opened 20 new stores over the year. We reduced our investments. We invested BRL124 million in the company as a whole highlighting IT in these investments.

On the next slide, slide 5, we show the evolution of our gross revenue on a quarterly basis and it is very clear here the acceleration of our growth in the last quarter, both in the consolidated figure as well as the Internet and also same-store sales growth.

In our brick-and-mortar stores on slide number 6, the performance of our gross margin show -- very consistent quarter-over-quarter. Operating expenses in the last quarter, we were able to reduce expenses nominally from BRL645 million to BRL630 million. So it was a very strong dilution and also a nominal drop in spite of the inflation, in spite of the higher number of sales and the return of the tax on our (inaudible) and a very consistent work done in that.

In equity income, a contribution of Luizacred, a consistent one, over all the quarters, BRL15 million, BRL16 million. And here, we have the main effect on our gross profit including more rational prices on our website, in brick-and-mortar stores, the collection of freight and assembly and the better product mix as well.

On page seven we show the EBITDA evolution. You can see quarter-on-quarter going up and up, and what really explains this evolution were the growth in our sales, the increase in our gross margin, better dilution of expenses and positive e-commerce contribution. Practically, the whole growth of the company this year came from e-commerce and we were able to increase our low margins, which is evidence that our e-commerce generate results and is rather positive for our business as a whole.

On page eight we show the financial results in this quarter. We saw a very -- an expressive dilution in financial expenses from 5.7% to 4.5%. So, it was really a consequence partly of the beginning of the drop in interest rate in Brazil, however mainly due to the reduction in the leverage of the company and the cash generation of the company as well.

For the year as a whole, we diluted financial expenses from 5.1% to 4.9%. And I should also mention that our financial expenses are very much related to interest rate, the Selic rate. And with the drop in the Selic rate, they should drop in the same proportion practically.

On the lower part we show the evolution of our working capital, and it was BRL216 [ph] million for the year. And also, the importance of e-commerce has a bearing here because e-commerce has the working capital performance, which is better because the inventory turnover is better and the payment terms are the same as the brick-and-mortar stores.

On the top of the reduction of -- our net debt and our leverage very much associated to the evolution of working capital. Our gross debt was practically stable and we increased our cash position. We closed the year with a cash position of BRL1.4 billion and the highest of the company since the IPO.

On page nine we show the net income quarter-on-quarter. On page 10 we talk about the Luizacred results, which was also a highlight for the year. The sales of LuizaCred in the year grew by 19% and for the year 10% growth, reaching BRL12 billion practically and highlighting the growth of Luiza Card in the stores or Magazine Luiza stores. In the quarter the growth was 34%, for the year 18%. So the participation of the Luiza Card increased rather excessively and this also helped the performance of our stores over the year.

On page 11 our portfolio and also the delinquency indicators, they dropped very significantly over the year. And the card portfolio grew, occupying the space of the DCC [ph] or direct consumer credit (inaudible).

Here the performance of net income of Luizacred on the next page, and in terms of operating income Luizacred grew by 17% vis-a-vis 2015 but as tax burden was higher, the net income was slightly lower. But as a trend, the last quarter was much better than the last quarter of 2015.

Some highlights here of our strategic pillars that Fred has already referred to; on page 14 we show is a multi-channel pillar, the Retira Loja store pickup, we have a new rollout in January and it was a big hit. Deliveries are increasing on a monthly basis and we have already exceeded 100,000 products bought on the Internet and with store pickup.

On page 15 about our app, 4.5 million downloads of our app and Google award as one of the best apps in Brazil. On page 16, we show you our main partners in our marketplace today and the ones that are on the pipeline. There are already many partners, many suppliers in our marketplace today and many others already with signed contracts being connected over the next few days or weeks.

On page 17 we show you that we've progressed a lot in terms of our assortment. In the ML (inaudible), we showed this slide, 80,000 SKUs, marketplace with 30,000 SKUs in our own inventory. And today, it has already increased to over 200,000 SKUs in the marketplace. So, we have over 230,000 SKUs available on our website.

Now, I would like to give the floor back to Frederico.

Frederico Trajano Inacio {BIO 17269235 <GO>}

I would like to say a few words about 2017, our outlook, and we always end the call with this kind of expectations for 2017. As we said before and Roberto said as well, we implemented many projects for digital transformation. Some of them were rolled out at the end of 2016. So, we will have a year in which we will be further accelerating and implementing the projects but we will also capture the gains of the projects that we implemented last year. Many of them, we rolled out at the end of the year. So, we will continue to harvest and implement the project.

Our focus will be on marketplace. So most of our endeavors of our lab -- our technology lab and our e-commerce people and our back-office people will have to get ready for that, because it has to do with the evolution of the marketplace platform. We will be launching new functionalities, we will be increasing the precision of the search and the usability of our digital platforms. So, lots of things will be coming in terms of our market-based platform. But we will not give you any figures, okay, in your questions.

We will continue to gain market share in a sustainable way. We gained share last year. We believe that this year we have all the right conditions to continue to gain market share in conventional stores and online. And in conventional stores, beside gaining market share, probably in the second half we will have favorable win, that is to say tailwinds, because 2017 will not be worse than 2016. So, we will still be reaping these benefits and gaining market share and the economy as a whole will be helping us. E-commerce doesn't feel [ph] that so much. We want to continue to control our operating expenses and all the programs that we put in place last year will be repeated this year, of course with a more challenging base because we have already done quite a lot last year.

And the whole process, the culture of expense management has stayed with us, we learned a lot, and we want to keep this learning even in years that are not as challenging as 2016. We want to intensify cash generation, continue our focus on working capital management and working on all the issues having to do with the cash generation and debt reduction.

We will be intensifying the opening of new stores. We believe that the stores are extremely important as revenue generators, as growth generators, but also because of our multi-channel platform; and also rolling this out to other markets where -- and the brick-and-mortar stores are very important for the company as a whole. And they also are very good opportunity for future revenue stream.

We will continue to have a very strong discipline, paying very low cost for each square meter and no major interventions of civil works. And we have an expectation of reduction in financial expenses with a drop in the Selic rate.

So, this is what we expect for 2017. And our whole executive team is available to answer your questions now.

Questions And Answers

Operator

Ladies and gentlemen, we will have a Q&A session now. (Operator Instructions). Fabio Monteiro, BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon, everyone. My question is about the marketplace; you have already detailed the SKUs, et cetera. I would like to understand if you can give us some target for this year -- for the next few years regarding the number of sellers and also how much you believe the marketplace could represent in your GNV [ph] online and also the total for the company for the medium and the long-term.

And I would like to understand if this -- in this online performance if you could highlight some segments or some geographies or some product mix, that is very good, or if you had across the board growth regardless of mix and geography.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Fabio, good afternoon. Thank you for your question. I will answer about the marketplace. And as I mentioned, Fabio, we are not going to give any guidance regarding GNV [ph]. The focus is on the platform, in the construction of a robust top quality platform that may be liked by the seller and that the consumers might have a user-friendly experience with.

So for this year, I do not want to place big figures -- or that we call metrics of vanity for our marketplace platform, because our team has to be very much focused on building a top quality platform as we launched [ph] this last year, we still have a lot to do in terms of improving functionality and user experience and we are also very much concerned with guaranteeing the ways that we can have scale with the maintenance of level of service. This is something that is not very common in Brazil and we are trying to scale without losing the level of service.

So focus on product, and what I can say more in the long run is that if you see around the world, marketplace has a very fast scaling power. Once you have -- your value proposal correct and a very good platform, scaling is very fast, it is exponential, such as we have never had in any other channel. It grows very fast. So the growth is exponential after you start doing things right. But first, you have to be right and we still have to do some streamlining here and in the future. We believe it could represent more than half of our sales and e-commerce and I know it's very daring. It's not the guidance. However, there is a possibility for this to happen.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Fred, thank you about what you have just said. Do you see any kind of limitation to your marketplace in terms of reaching scale, maybe the size of your offline? Or what about marketing investments to show Magazine Luiza to the sellers and to the end customers as a platform, but over time you will be adding much more than the number of figures that you mentioned. In your view, you're talking about maintaining the level of service and doing this very carefully. But do you see any stumbling block on the path of the marketplace?

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

No, not at all. The biggest challenge is to develop a robust platform that you can scale with a good level of service. And this is big challenge. Once you're able to do that, scale is very fast and very organic. You don't have to make a lot of investments. We already have a queue of over 500 sellers to come on-stream and everybody wants -- it's no-brainer, it's a no-brainer to make available any products on the platform.

So it has to do with us. It has to do with maintaining and building a robust platform, that can be scaled with quality and no external limitation. There is no external limitation. The market is greenfield totally. 3% of the total sales of Brazil is e-commerce and a small part of that is marketplace. So you can see that there is a lot of room for growth and there is nobody yet that can say that they are the big guys. Some people have a high GMV [ph]. But a lot remains to be done. So the focus is the product, the platform and quality of the platform.

I will let Eduardo answer, our Head of E-Commerce.

A - Eduardo Galanternick {BIO 20410320 <GO>}

Hello, this is Eduardo Galanternick. The growth was very balanced. In E-Commerce we were very able to do this in every ticket and conversion and in terms of categories and in the number of hits, telephony, IT, electronics. And regarding regions or geography, we had a slight dispersion, nothing very big, but there was a de-concentration from Sao Paulo. Sao Paulo has always been very relevant. However we saw a slight dispersion to the areas that are close to our DCs, where we have operations, as we are evolving more and more, the inventory and the multi-channel area. But it was very balanced and sustainable.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you, Eduardo.

Operator

Richard Cathcart, Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

My first question is addressed to Roberto. During the presentation you talked about ZBB and that helped you quite a lot in terms of reducing your expenses and giving you a good bottom line. I would like to understand how you can continue to have ZBB in 2017 or does it become harder and harder?

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Richard, it becomes harder because we have already done quite a lot last year. But excess dilution increased over time during last year.

So there are projects that matured over the year, and that this year will have an effect during these 12 months, because it will help us to continue diluting our expenses when we compare this to last year. But it has to do with productivity gains, and for instance, we say that in the last two years, we reduced -- we were able to reduce the number of headcount in fact. And we recover the level of sales of 2014. So we gained productivity in terms of sales per employee. It was very high in fact.

And we have lower headcount than 2014, selling the same as 2014, and of course because of automation processes in our stores, the mobile sales for instance is one of the examples, today sales are much faster. The sales person can cater to more clients.

There are still projects for roll out over this year, to continue to automate our stores and in productivity of the stores. And also many other expenses we worked on the matrix, expense management and the store pickup project for instance bring savings for our freight package. And in e-commerce this the main expense.

So personnel, freight, electric power, credit card, many packages are under the Expense Matrix Management and we consistently compare performance amongst stores, among groups of stores in trying to bring those to a lower -- to higher level and looking for benchmarks and looking for new ideas coming from the stores that are having their best performance and so on and so forth, and this is part of the company culture and managed -- Expense Management Matrix. We will continue to focus on productivity gain, but of course last year, we have already captured, so to say a lot of this potential. And now we will continue to work in order to gain more and more.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you very much. You talked about a more rational environment in terms of prices, E-Commerce prices. I would like to understand your view for 2017. Do you believe it will continue to be like that, because your competitors are having problems regarding profitability and cash generation. But do you believe that as the market improves, rationality goes down?

A - Unidentified Speaker

Richard, what I see -- I believe that I would place my bet on the maintenance of rationality, because even in the US, which is where this thing started, well, I'm going to grow a lot with losses -- all the venture capitalists of the US that really funded this, they reduced their aggressiveness. So they are choosing and they are reinvesting in companies that have a higher potential in the short run to grow with positive cash generation, or that have a trend of improving their margins over time.

So this is not a reality for the Brazilian E-Commerce only. All the digital start-ups are the same. There is a higher pressure, so that they may have more profits in the short run, and investors will be more rational because they know how to separate these digital companies that can be profitable and those who cannot be profitable.

There are no longer willing to finance, neither one type or the other type of investors. So there is a worldwide trend. So this will happen in Brazil as well, E-Commerce and startups.

This is where I'm placing my bet. But you never know how the financial market will perform or behave.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Thank you, Richard.

Operator

Joao Mamede from Santander.

Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon. Two questions, one about cash generation. Not only in the fourth quarter, but over the whole year, it was one of the big surprises, positive surprises and you have a very comfortable leverage today. Looking ahead in principle, great results, according to the ones that achieved in these last quarters, do you believe you will be -- will you be working to achieve, what level of leverage? And what about your cash generation, what -- where will you be using it? And how do you see the beginning of this year? You closed the year very well accelerating vis-a-vis the previous quarter, the beginning of the year, there was a very important event, which was [ph] the fantastic sales. So how do you see the beginning of February?

A - Unidentified Speaker

Good afternoon Joao. Thank you for the question. About cash generation, we cannot give you any guidance. What we can say is that was a very big focus last year and the focus will continue. Last year we were able to generate a lot of cash, a lot coming from the evolution in our working capital situation. We will make our best endeavors to continue to improve our working capital.

Last year we improved our inventory turnover. And this year with the recovery of the economy and sales we have the possibility of further improving our inventory turnover. And last year we were able to increase the average purchasing turn [ph] in an intelligent fashion. And we do not want to give any steps back. We intend to have a very healthy turn.

As E-Commerce grows and as we have better and better inventory turnover and as conventional stores become more and more significant as well, in the stores you have the inventory that is really the sample general store. And our performance in brick and mortar stores were stable last year. So it's difficult to improve with stable sales.

As sales go it's easier to have a better inventory turnover. E-Commerce has a better turnover because it gains participation in total sales and we improve this in the consolidated figures. But having an average turn for sales we can generate cash with this ratio between our inventory and our suppliers.

We will continue to work. Our financial departments work hand in hand with our commercial department to further improve our working capital situation. And financial expenses dropped with the drop of the SELIC rate for instance, we have more cash left over for the company and the financial cost. The projection is a drop in the SELIC rate and it will have a big impact on our financial expenses. The correlation is very big between the CDI [ph] and our level of financial expenses. What we can say is that we will continue with this focus. We will not give you guidance, but our target is continue to generate cash and reducing our net debt. So this is our task.

Q - Joao Mamede {BIO 15265292 <GO>}

Roberto, could you talk about this point, because I understand that most of your cash came -- liberation came from working capital, but also because of CapEx. So it was even better. And for this year do you intend to accelerate the opening of new stores that will demand more CapEx? But overall, how should we consider CapEx as a proportion of sales?

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Joao, this is Frederico. We are not going to talk about CapEx guidance, but this will be higher than last year. Also because, but not exclusively, because of a resumption of a stronger plan for the expansion of new stores. And I would like to remind you that we have a lot of discipline in the investment that we make in new stores.

They are not going to be extremely high investments.

But we will put more CapEx, even more than proportionally in new stores and technologies for the investment in platforms that we mentioned the beginning of this talk. But from the CapEx view point, I don't see anything material that could change our outlook for a continuous reduction of our debt. Even with a higher CapEx, we will be able to reduce our debt. I don't believe it's comfortable. I think it's better than last year.

And at the end of the year, of course we always have a better snapshot, because you'll have seasonality over the year, regarding our suppliers' incentives are in the first one, that will be different from the third and the fourth. And what is important is that it improves significantly on a year-on-year basis, and we want to have this. But the snapshot of the end of the year is better than during the year and even with the drop in the SELIC it is still the highest SELIC in the world, and it generate very high financial expenses. And we want to reduce and we want to improve our coverage ratio of our EBITDA over financial expenses, which is an indicator that we will be focusing on.

We want to make EBITDA more net income and we have to continue to reduce our indebtedness. About the finance -- the fantastic sales, Fabricio will -- will answer.

A - Fabricio Bittar Garcia {BIO 17269261 <GO>}

This is Fabricio. We started the year well. We had a very great sale. It was the best sale ever in our history. Our performance was better than last year. We have been performing well in almost all of the categories and this warm weather is helping us. We had a good January, we are having a good February. And I believe that we will have a good quarter compared to 2016.

Telephony continues to perform very well, and IT as well, White Line as well. In E-Commerce we had a good performance Eduardo will talk. We started the year very well with the same focus on execution that we had during last year. And something very important for us are these major events. So we have very good level of merchandise and we were able to perform very well in our fantastic sale.

February continues to go well and the market as a whole has reacted and -- with about 15% growth in the market. So we have a better market scenario with the same focus on execution that we had last year. Thank you very much.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you.

Operator

Thiago Macru from Itau BBA.

Q - Thiago Macru {BIO 16404924 <GO>}

Good afternoon. I would like to ask a question about Luizacred. The drop in the SELIC that we will be seeing in 2017, how long does it take for it to have an impact on Luizacred? When can we imagine that this will incentivize sales in the brick and mortar channel?

And the second question, we have seen some players interested in buying an asset that is available for sale in your sector. Do you think it's possible for an international player to be interested and make an offer or -- and what is your opinion about the impact that an international players could have?

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Thank you, Thiago for your question. The first one Marcel [ph] will answer about the impact of SELIC on Luizacred and then I will talk about the impact on the business. And about this other part of your question --

A - Unidentified Speaker

Thiago, thank you for the question. This is Marcelo Ferreira [ph] from Luizacred. Of course there will be an impact in this year, certainly and you will see an increase in credit assignment, as a consequence of that. So we will be working from now on in a different market from the one that we have been working in the past, but that we are familiar with as well. So it will be only natural. Both Luizacred and the market as a whole will be following this reduction by reducing interest rates.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Thiago, about the second question, this is a very difficult one. I wouldn't like to talk about it, and built scenarios about the impact or any outcome of the acquisition process of one or other asset in Brazil. I believe that we are living in a very sound moment with a lot of focus on execution in this year even better than last year.

From the viewpoint of operation of team and knowledge and the projects in order to operate very well and we will be very much focused on execution. And what I can tell you is that I'm not afraid of anything that might come from an acquisition process. I think it really depends on us to continue in this virtuous cycle of expansion. And I see no major threat from the microeconomic view point. Thank you.

Q - Thiago Macru {BIO 16404924 <GO>}

We saw that Amazon went to Mexico organically. So when could this come to Brazil. And your results in E-Commerce are very impressive and they might be drawing attention. What is preventing them from coming to Brazil? I'm just curious about that.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Well, I respect the company very much. They have a very good execution and retailer with the highest market value in the world, the highest market cap with a very good level of service, mainly in the US for their client. So we have to track the company and for many years I have been answering this kind of question to analysts and to journalists of when will Amazon come. And I think they have a very sound focus on India. They are investing millions and millions of dollars in India. This is a very big market consuming a lot of their energy and you talked about Mexico but they are not as aggressive in Mexico, but they are not as aggressive in Mexico as they are in India because the Indian market is even more promising.

And what I see in Brazil more specifically, if I could suppose something, I see that Amazon has a model that grows with cash generation. It doesn't have very high margins. The margins are low rather and they work with a positive working capital. They have more suppliers and inventory 45 vis-a-vis 30 [ph].

And this is very positive in the US. All the credit card sales are cash, that is to say. And here in Brazil you have 10 times non-interest-bearing and it consumes cash. This is a Brazilian invention. So you have to discount receivables. So they're not used to this kind of thing. And in Brazil, they would have to deal with that. Besides, we have a country that is very complex in terms of delivery and Amazon has a lot of discipline regarding the service level and delivery.

And I believe that one day in the future, we will have some evolution there. But our carrier system is not so automated and we still have to evolve quite a lot. We depend on the postal service and they will not be able to replicate the very high level of service. In

Magazine Luiza, we are growing very much because of the support from our brick and mortar stores transportation. We have over 900 providers and they have a very good level of service.

For a new player who does not have what we have, maintaining a high service level is very tough and Amazon here have -- has industries that are not very good. They are not close to the ones that they have abroad and they are very much focused on client. They have a very strong principle of customer obsession and they will only be able to scale here, should they be able to replicate this model here.

Q - Thiago Macru {BIO 16404924 <GO>}

Thank you Fred.

Operator

(Operator Instructions). Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon Fred, Roberto. Thank you for the question. Could we talk about the competitive environment? We see that the market is difficult. And this year the interest rate could improve the situation. But when we look at the data, the PMC, we don't see anything really materializing in the market yet, especially for companies like yours. And in spite of that you're able to deliver good results, a positive same-store sales of 5% in brick and mortar, and also very major growth, much higher than the market in E-Commerce.

And during 2016 and this year we see that the competitive environment is difficult in the fourth quarter for instance with the competition gaining some tax benefits and be inferior [ph] in some senses. So how do you see competition or how did you to see competition in the fourth quarter? You continued to gain market share? I would like to know the behavior of your competitor's price wise and how do you see this from now on? As your margins have not been very much impacted by any changes, and how do you see this in your analysis regarding the pricing -- pricing policy of your competitors.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Guilherme, thank you for your question. Well, I have already been repeating this ever since the first call last year, when we said that our expectation was for a more rational market, and as incredible as it may seem, the crisis generates a less competitive market and I will explain this. Because I know that it sounds very strange. The market is less competitive, because in crisis you have less liquidity in the market.

Banks do not lend quite a lot, less capital market financing proposals, of low profitability and high growth, and what happened was that many competitors that were less well structured, had less access to capital because of the risk aversion of the financial market and also of suppliers who also work with credit insurance.

So many companies that were not very disciplined they exited the market, reducing their operation. Because they didn't have access to liquidity or to credit or to the equity market. As you said yourself the market continue to be selective. Banks are very selective now and investors are more rational and suppliers are more disciplined in terms of credit assignment to retail. So I continue to see a rational market for this year. I don't see big changes, because this year starts with some accelerations with the SELIC drop. And for this year, I don't see major changes in the competitive market, in competitive scenario.

Q - Guilherme Assis {BIO 16143141 <GO>}

How should we see your gross margin? I understand what you said, that some players continue to compete as usual and some are weaker. So competition is not to so serious. But looking ahead, and the outlook for recovery is still more in the medium run. How should we see this issue of gross margin that has been sustained at reasonable levels in spite of the difficult market? How should we look at that?

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Well, I cannot talk about guidance, as I said. But I will talk in general. I'll give you a scenario of maintenance of the figures of last year. This is not a guidance, I repeat. But we believe that this is the most probable, vis-a-vis the market situation.

For a long time we had -- we have been saying this, if you look at the gross margin of Magazine Luiza for the last four years, you will see a high degree of stability. We are working with a gross margin very close to our IPO, with all the quarters there is a strong maintenance. Our whole team is focused on delivering sales and margin, not only sales.

So we say that all of us have to think about long-term growth. Sales person of Magazine is commissioned over the gross profit, both E-Commerce and brick and mortar store. It has to do with cash margin, sales and gross margin. So we have a very strong discipline and the best way show this is to show you our history of a lot of stability in gross margin with high growth or low growth, we have, always had this ability.

I'm not saying about this year, but the next year, this tends to help gross margin. And by that I mean growth of marketplace. And as I said in the previous question, it's not for this year, but for the next few [ph] years. As it scales it will improve gross margin and the health of our gross margin.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you.

Thank you.

Operator

Now we close our Q&A session. And we would like to give the floor back to Frederico Trajano for his closing remarks. Mr. Trajano, you may proceed.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Once again, I would like to take the opportunity to thank all of you, mainly our team who worked very hard this year. Again a very challenging year, macro economically speaking. And I don't want to minimize the work that was done by all of you. You have worked very hard in a very assertive manner. Many of them are with us in the call.

And I would like to thank our shareholders, our investors who participated in this process and placed their confidence on us and our clients who have maintained their loyalty to our business. And we hope to be able to further improve our level of services, the enchantment [ph] and the good services delivered by all of us. And so I would like to mention that we are grateful to all of you. And we have a moderate optimism regarding 2017. The company is growing very well, is very prepared for this year. It's not going to be as tough as last year.

And I would like to say that we close this call with moderate optimism. We will be celebrating 60 years of life and only handful of companies are able to survive in such an uncertain environment such as we have in Brazil. And we say that we are a startup of 60 years of age and we want to continue changing and improving. And thank you very much to all of you.

Operator

Magazine Luiza's conference call is closed. We thank you for participating and wish you all very good afternoon. Thank you for using Chorus Call.