

Q4 2013 Earnings Call

Company Participants

- Fabio Abrate, IRO

Other Participants

- Alexandre Ansent, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joao Mamede, Analyst
- Vitor Paschoal, Analyst

Presentation

Operator

Good afternoon. And thank you for waiting. Welcome to the earnings release of B2W Digital Company to release the results for the Fourth Quarter.

We have here with us Fabio Abrate, the IRO for the Company and -- relations with investors for -- Americana.

Once again, we would like to ask you to use the support presentation that we have at B2W.com.br. This event is being recorded and all participants should be connected in listening mode during the Company's presentation. Subsequently, we will begin the question-and-answer session when further instructions will be given.

Should you need any help during the presentation, please press star-zero.

And for the period of one week, we will have this on the site.

Once again, everything that will be presented constitutes the beliefs of the Company and is also based on information available. Once again, we are basing ourselves on assumptions that are forward-looking and, therefore, will depend on circumstances that could take place or not. Investors should understand that general economic conditions, industry conditions and other operational factors may offset the future results of the Company, thus leading to results which differ materially from those expressed in such forward-looking statements.

I would now like to give the floor to the speaker, Mr. Fabio Abrate, that will present his transparencies.

Fabio Abrate {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen. Thank you for your presence at our Webcast where we will speak about the results of the Fourth Quarter and the year 2013.

I invite all of you to begin the presentation on slide two.

The year 2013 for the Company represented the first stage of a three-year investment plan, from 2013 to 2015. Several projects were carried out during the year, enabling the Company to move forward in its strategy to come closer to clients, offering the best purchasing experience, the best delivery service and the best service.

During the year, the Company recorded consolidated growth revenues of R\$7 billion, with a growth of 28.5% when compared to the previous year, with a growth margin of 24.8% with an evolution of 1percentage point and an EBITDA margin of 7.1%, with an improvement of 0.2%.

As part of the investment of 2013, we had four strategic acquisitions, three of which are companies specializing in technology; Uniconsult, Ideais and Tarkena; and the acquisition of Click Rodo, a transporting company specializing in electronic trade. With the acquisition of these three technological companies, the Company has doubled its engineering team for IT. Presently, we have 600 digital talents in this area.

In this context, we inaugurated the first BIT B2W innovation and technology to bring together our technologies team and inspired on the greatest Web center for innovation and entrepreneurship.

In 2013, three new DCs were opened; Sao Paulo, Mina Redais and Pernan Poco; increasing the storage capacity of the Company by 60%. Presently, B2W Digital has seven distribution centers and we hope to open seven more until the end of 2015.

Two important initiatives in 2013 were the launching of the Fashion category and the beginning of the marketplace operation. Other highlight operations were the choice of B2W Digital to operate the entire online store for AMBEV with technological and logistic platforms, and the Sifa online store for the 2014 World Cup in Brazil.

As a reward of the mobilization of the Company in offering the best digital experience to the customer in 2013, B2W had the best awards such as Epoca Reclame Aqui and the Top of Mind Internet for the seventh consecutive year. These achievements ratify the position of the Company as being the first in customer service.

After a year full of important achievements with a continuous evolution of results, quarter after quarter, of course, we have a great deal of enthusiasm for 2014 that begins with an announcement of capital increase of R\$2.380 million to improve the capital stock of the Company. And the resources of -- will be used to amortize our debts.

This capital increase will enable the Company to continue to invest in the pillars of the business, accelerate our growth and consolidate our leading position in the market.

This will increase the trust of the parent company, Lojas Americanas, in the strategy and in the business model of B2W. And will also show that technology internet investor that we are on the right path.

We go on to slide three to show you the most important consolidated highlights of the Fourth Quarter of 2013. Important results were achieved.

The growth revenues increased 29.4%, reaching R\$2.376 million. Net revenues increased 30.4%, reaching R\$2.079 million. Gross profit increased 36.4%, obtaining R\$503 million, with a growth margin of 24.2% of net revenues and an evolution of 1.1percentage points. Adjusted EBITDA grew 42.4%, with an EBITDA margin of 7.8% of net revenues, an evolution of 0.6percentage points.

On slide four, we highlight the results obtained by B2W Digital in the last 12 months, a period in which the Company recorded gross revenues of approximately R\$7 billion, representing a growth of 28.5%, adding R\$1.5 billion to the business sales.

In 2013, B2W grew beyond the market growth, gaining market share, showing consistency in its strategy and in its results.

On slide five, on January 21, 2014, we held a Board meeting for the Company with the goal of approving the signature of an agreement to subscribe shares with CADE Global and Lojas Americanas, with an increase in the private capital of the Company in the amount of R\$2.380 million through the issue of 95 million and 200,000 ordinary shares at the price of R\$25 per share. These resources are destined to amortizing part of the debt, allowing the Company to continue to invest in the pillars of its business, accelerating its growth and consolidating its leadership positioning.

The operation is still subject to the approval of CADE and, subsequently, to the Extraordinary General Assembly of the Company.

On slide six, we can see that B2W Digital launched, in January of 2014, the B Seller Web service platform, which is the most complete tool for the management of ecommerce, very sophisticated, improving performance, combining backoffice and the online store platform in a single place.

B Seller arose from the acquisition by B2W of two companies that have a long-standing tradition in service-rendering to the market based on electronic trade; Uniconsult and Ideais.

On slide seven, B2W will operate the online store, KM de Vantagens, from Ipiranga. B2W has been chosen to operate the electronic platform for the Fidelity program for

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Shoptime. Besides this, this operation will allow the customers that have a Fidelity program to exchange their points for products for the Shoptime Friends.

If we go on to slide eight, we show you the four brands that were launched by B2W. In December of 2013, we launched our own brands, NewMe, Meemo, Topdesk and Orb, available exclusively through the site Americanas.com so Marino and Shoptime.

The brands refer to categories of health and beauty, pet shop, paperwork, stationery and furniture.

NewMe in the beauty and health segment has a portfolio of electro, electronics and products for the care of the body and health.

Meemo is a brand for a pet shop that makes the life of animals much happier.

TopDesk offers differentiated office programs to transform the working place -- place.

Orb -- products with exclusive design in decoration and furniture.

The launching of the new brands is a reflection of the acquired knowledge through the Company throughout the years with the successful operation of owned brands of Shoptime where we exclusively sell Frontier Chen, electro-domestics for kitchens, La Cuisine electro-domestic Causi Controlto. Here we're talking about linen and like zones, sports and leisure category.

Now when we go to slide number nine, we would like to highlight that Submarino participation for the fourth consecutive year of the Campus Party, the main technology events, creativity events and digital culture events in the world. In addition to this, Submarino was the official ecommerce of the events for second consecutive year.

For the events this year, Submarino had a special schedule that engaged the participants in a unique experience of entertainment and technology. The Megastand highlight was over 600 square meters, with Submarino's URC; Ultimate Robot Combat; a thrilling robot battle. The participation of the event had as a target to strengthen the positioning of the brand as a technology reference and innovation reference, and to attract new digital talent towards our Company.

On slide number 10, we would like to highlight that in 2013, B2W achieved the main customer service awards and four awards; Epoca Reclame Aqui; the best company for the consumer. We realized the highlight of the three main B2W brands; Americana.com, Submarino Shoptime has an RA 1000 stamp in the ranking of Reclame Aqui and a Diamond Stamp in the ranking of eBit. This shows our high level of reputation.

These achievements consolidate the position of B2W Digital as the best customer service in Brazilian internet.

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Now, going to slide 11, we would like to remind you the launching of the operation of the marketplace of Submarino at the end of 2013. This initiative is aligned with the strategy of offering a purchase experience much better than intergrades. The price difference stores increased in the assortment of the site. And you can find a number of products --, all of the goods within the technological platform that is safe and effective.

Submarino Marketplace is already reflects the gains of the joint efforts with the recently acquired companies, Uniconsult and Ideais, that have great expertise in this front.

Now, when we got to slide 12, we would like to reiterate the strategy in the investment plan of B2W Digital for the years 2013, '14 and '15.

In the year 2013, what this represented for the Company was the first stage of the three-year investment plan where we will invest over R\$1 billion in technology, innovation and logistics.

We completed this first year with great success, but we are absolutely sure that there is still great room for improvement to achieve the target to be closer to our customers, offering the best purchasing experience, the best delivery and the best service.

At last, on slide number 13, we would like to strengthen our vision to be the biggest and the most loved digital company in Latin America. This way, we would like to thank the dedication of all of our associates that made a difference in the year 2013 and that are a part of the best and the most successful digital team in Latin America. We would also like to thank our suppliers for their partnership, our shareholders for their trust. And mainly, our customers for their preference.

Questions And Answers

Operator

Ladies and gentlemen. we will initiate our Q&A session. For everybody to participate, we request you to be very brief in your comments.

(Operator Instructions)

Our first question comes from Mr. Joao Mamede, Santander.

Q - Joao Mamede {BIO 15265292 <GO>}

I have three questions. My first question will be the other alliances have strongly impacted the earnings in the last quarter. We've seen a drop in the past earnings. I believe that this is due to the problems of 2010. I would like to understand how are you going to deal with this line from here on? It should go to zero or there is still something that should impact your earnings?

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My second question would be working capital that also aligned where we have a substantial improvement regarding suppliers. I would like to see your supplier lines if they will have a substantial drop, or if from here on you will have; you know; slighter improvements in your suppliers? So the question is this.

The third one would be -- an update regarding capitalization. I would like to understand if you received an answer of the CADE? When will this be approved? When this money will be invested or will go into your account?

Thank you very much.

A - Fabio Abrate {BIO 17940993 <GO>}

Joao. Good afternoon. And thank you very much for your participation.

Starting for your first question regarding other revenues and operational revenues; well, we presented throughout the year a substantial evolution in this line. In the quarter, there was a 76% drop in the year, where we closed the year with a drop of 28%. And as a matter of fact, this line reflects the problems that took place at the end of 2010. And from here on, I believe that we can expect a continued evolution in this line according to the last quarter.

Q - Joao Mamede {BIO 15265292 <GO>}

Now, just one follow-up here regarding this question. The limit of this line can tend toward zero is something will always appear? So should we be paying attention to something special?

A - Fabio Abrate {BIO 17940993 <GO>}

Well it is difficult to be accurate regarding this value of this line from here on. What I can state here is that this line tends to evolve. And our expectation here is to continue following; you know; this evolution and this trend.

Now, regarding your second question regarding the evolution of our working capital. This is an evolution that wasn't; we didn't observe this only at the end of 2013. Throughout all the quarters of the year, we have; you know; note an evolution here gradually. And we always see working capital under the three variables; stock, suppliers and accounts receivable.

We can continue progressing in this line. And we do believe that there is no limit here. As a matter of fact, we reached the end of the year with a 49-day evolution, vis a vis last year, with net need of 25 days.

Now there are always great opportunities in all the three lines.

Now, regarding capitalization; that would be your third question.

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For us, this is an operation that makes us very proud because this, as a matter of fact, reflects all of the assets that we have been carrying out inside the Company throughout the last year. So I believe that this ratifies the positioning of the parent company shareholders; the trust they have in our Company; this Green Tiger that is a fund where there is a renowned name in technology in the financial area.

Now, in terms of the operation horizon; well, it's in the CADE right now. We still do; we haven't received any answers regarding when this approval will be made. We are not facing any difficulties in this operation. So I believe that this is something very positive within our global pipeline of capitalization. I believe that; we believe that, yes, it will be 100% finished at the beginning of the second semester.

So we will be able to observe the effects of the capitalization in the second semester of the year, reminding you that the use of these resources will be to prepay our debt where there is an entire dynamic to do this.

And there is no doubt, for the year 2015, as a matter of fact, we will be able to observe a final result of this capital increase within the B2W.

Q - Joao Mamede {BIO 15265292 <GO>}

OK. Thank you very much for your answer.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you very much.

Operator

Our next question from Mr. Vitor Paschoal, Itau BBA.

Q - Vitor Paschoal {BIO 17585365 <GO>}

Good afternoon, to everyone. I have two questions, one regarding your growth margin. I would like to better understand the driver of the; the driver of your gross margin; this trend not only in this quarter?

And the second question would be regarding your CAPEX. I would also like to know where did the CAPEX go; this R\$300 million CAPEX; in detail? You know, what are your investment projects, not only logistics? But I would like you to break out; you know; your projects. Show us what you did?

And from here on, I would like to understand if we are closer to a R\$2 billion CAPEX in three years instead of R\$1 billion?

A - Fabio Abrate {BIO 17940993 <GO>}

Vitor. Good afternoon. Thank you very much for your participation.

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Now, regarding the gross margin, we have made progress throughout all the quarters of this year, reminding you that B2W operates with over 38 product -- categories so our assortment is highly diversified, what always allows us to work in a good way with our mix. So the categories that are good for traffic but are not good for margin. But we have a margin that is superior.

So we have been working strongly to balance these categories.

Now, from here on, I believe that we will continue with the dynamic of the categories that we already have.

And we also have new initiatives. Our own brand; we already operate with four own brands. We have just launched four new brands that are products that we know that, on average, have a better margin than the margin of the Company.

Now, the operation marketplace, something that we very recently launched in the end of the year 2013, as you know, is the pure margin operation. And this is the trend in 2014 to continue strongly investing in this front of marketplace. We have a plan that is extremely bold regarding this point. So I alive that this will be another front that will contribute to our margin.

We also launched in 2013 the fashion category, as everybody knows, with very good margins.

So yes, within house, we have an extremely relevant mix to have the best balance our customers want to buy a little bit of everything. B2W has a vast assortment and the greatest assortment in the market in all categories. And we are bringing within our business new initiatives that tend to improve the purchase experience of our customer, and to contribute with our margin and with the Company's earnings as a whole.

Now, regarding your second point here; our CAPEX. In reality, it is very important to remember our three-year investment plan where we said that we would invest minimum R\$1 billion. All of the investments are focused on our customers, to better service our customers, to create a differentiated service for our customers. This is a pre-requirement to work with ecommerce.

So all the investments of 2013, where we are including the three new distribution centers, the four acquisitions and any other initiatives. These were to provide our customers a better purchasing experience.

Operator

Our next question comes from Mr. Gustavo Oliveira of UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

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A good day to all of you. And I would like to go back to a former question. Accounts payable seems to be very high, perhaps, because of a recurrent item. It is difficult to believe that your accounts payable is at that level during the Fourth Quarter.

Now, perhaps we could have an explanation of which would be a more normal figure to work with in the future?

In terms of costs, there is a great deal of inefficiency in the model because you're opening up new distribution centers. Once again, when do you think that your stock levels will be improved? And which is the soft target that would be ideal to be stronger and to improve your working capital?

These are my first two initial question.

A - Fabio Abrate {BIO 17940993 <GO>}

Gustavo. Good afternoon. And thank you for your participation.

When it comes to our stock, it's important to remind you that we have had a steep sales growth and our goal is to continue growing above the market averages, gaining market share. And we need to have stock to be able to soft sell this. That is why we have an increase in this line item, besides the dynamic caused by the opening of the new distributions centers. In October, we inaugurated three new distribution centers.

In terms of vendors, we should look at these two variables together as we grow and as we have targeted results in the future and as everything that we have planned materializes. Evidently, we are able to extend our partnership with our vendors so we can have an evolution within this variable as well.

At the end of the day, when we look at these two items jointly, we have had an evolution in stock and vendors and in the variable of credit cards where we have observed a market movement for cash sales, specifically in the year 2013.

All of these factors jointly have led the Company to show, quarter after quarter, a significant evolution of our working capital variables.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

I fully agree. And I understand the evolution. Nevertheless, it is somewhat difficult to accept that figure of accounts payable that seems to be very steep. Perhaps this is due to a short term phenomenon. We know that there will be a gradual evolution. But this jump of 50 days in accounts payable seems to be somewhat excessive.

Once again, it is not in accordance with the rest of the figures. And I would like to understand this better. Perhaps you can explain this after the call.

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A - Fabio Abrate {BIO 17940993 <GO>}

Gustavo, I think that we have mentioned everything referring to working capital, especially stock and vendors. It is interesting to understand the pace of the Company. We grew 28.5% in sales in 2013. We're not speaking of a Company that sells R\$7 billion a year with a horizon that is full of opportunities. And we pretend to continue to invest in growth strongly.

All of this requires investments in stock and a better relationship with our vendors. This is an achievement. And that is why you see the figures that we have published.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

I would also like to understand the evolution of your gross margin. Electronics, for example, have a lower margin. Home appliances as well. Formerly, they represented 65% of the mix, perhaps four or five years ago. What has been the evolution of this? And which is the percentage of total sales that these categories represent?

A - Fabio Abrate {BIO 17940993 <GO>}

Gustavo, nowadays, these categories represent approximately 50% of our business. There has been an evolution in the fact we had a greater concentration. But thanks to the work that we have done in terms of the best of categories items and products, now show us that these categories that contribute less to the margin have a lower percentage in the mix.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And the last question regarding margins, you are speaking a great deal about your own brands. How much do they represent in the shop sign sales?

To understand how many new brands that you are introducing, and how much they represent for the total of B2W? And how do these own brands operate? Do you have vendors identified? Or are you investing in companies that will supply these products to you? Which would be the supply chain in this case?

A - Fabio Abrate {BIO 17940993 <GO>}

Gustavo, regarding our own brand, this is an extremely relevant business for us as we have a path of success, especially with ShopTime, with the programs that we have.

Now, for the ShopTime business, our own brands are exclusive products and they are very relevant. And we believe that, as part of this new outlook of increasing the number of our own brands and going beyond the ShopTime, operating -- in Americana.com, we believe that this business will become very relevant for us, which is very propitious.

We know how to operate this business very well. And this is a business with margins that tend to be higher than the normal business margin.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And how does your supply chain operate for your own brands? How does your sourcing operation work?

A - Fabio Abrate {BIO 17940993 <GO>}

We look for vendors. And evidently, we are based on several criteria. Once we select our vendor, we begin to produce exclusively for the Company through these vendors.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you. Thank you very much.

Operator

Our next question comes from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have two questions. In expenditures with marketing, I would like to understand the increase that you had during the year? And which is your opinion of this evolution and how the evolution of this item will be in the future? Is it fair to suppose that with a gradual improvement in gross margin, you will be willing to invest evermore in marketing? And which are the opportunities that you foresee? And where would you focus these expenses?

The second question, when we look at the growth rate that had an acceleration in the Fourth Quarter, compared to the nine months before, and looking at 2014, 2015, which is your outlook on the growth strategy? Will you maintain your market share? Or is the intention to attempt to grow above and beyond the market to do this more aggressively to increase your share and leadership in some categories? Or is the focus more on profitability of each of the different line items?

Thank you.

A - Fabio Abrate {BIO 17940993 <GO>}

Irma, thank you for your participation.

Regarding the investments in marketing; marketing for us is deemed to be an investment. And as our investments, we have very stringent criteria when the Company cash. What we observe is that investments in marketing in the business is a sine qua non condition. And we see this in our sales. In 2013, we invested more in this line item. And we harvested the results.

Once again, because of the investments that we made, the gross margin has undergone an evolution. And gross margins don't relate exclusively to higher expenditures in marketing. It represents the evolution of our financial model, enabling us to continue on

with our investment strategy, which includes marketing to offer good services to our customers and to continue to grow.

The growth in 2013 was significant. We increased our market share. And for 2014, 2015, we will keep in mind that if we continue on in this path of offering better services to our customers, we will have strong growth. And we will continue to gain market share. This is the goal.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you very much.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you for the question.

Operator

Our next question comes from Mr. Alexandre Ansent from Credit Suisse.

Q - Alexandre Ansent

Good day to all of you. Some of my questions have already been answered.

I simply have a follow-up question to Tiago's question that refers to CAPEX. If you could explain to us what happened in 2013 so we can understand the level that CAPEX that we can expect; I'm not sure if this was mentioned.

The second question that refers to -- was a loan year after year. And I would like to know why there is a drop in revenues, which seems to be significant?

A - Fabio Abrate {BIO 17940993 <GO>}

Alexandre, thank you for your participation. We did have a problem with Vitor's question. And I will go back to answering that question on CAPEX.

When we speak investments, it is important to remember our master plan for the years 2013, 2014 and 2015. We want minimum investments of R\$1 billion. All of our investments are focused on our customers with the aim of having services that will set us aside, which is a pre-requisite to operating ecommerce in Brazil.

What we observed during 2013 was a move forward in this. We opened up three new distribution centers. We are ever closer to our customers. We acquired four highly strategic companies that are aligned with our business plan. And we believe that our performance in 2013 was very important based on this strategy.

For the future, we plan to continue with the same strength with the aim, once again, of better serving our customers. And we did this in 2013. And we hope to capture all of the

opportunities to generate value for the business and for our shareholders. This is our great goal.

Regarding your second point, the drop in general management expenses in the Fourth Quarter, vis a vis 2012, there was a 7% evolution. And this evolution is due to the optimization of our structure as a whole. So basically, this would answer your question.

I understand that it is difficult to talk about our CAPEX from here on.

Q - Alexandre Ansent

Now, regarding our expenses. This level regarding revenues; is this sustainable or will this increase?

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you very much for your question again.

Well we believe that there's a lot to do yet. We have been preparing our company to operate during the next quarter. But yes, the upcoming year. So there are many ongoing investments. We observed in the Third Quarter of 2013 an evolution regarding the dilution of our expenses; a drop of our expenses. This is the First Quarter where we present an operational leveraging that was very positive.

And throughout the Fourth Quarter, we also observed an operational; a significant operational leverage. We grew our EBITDA in 42.4% which significantly contributes with the year result where we grew our EBITDA more than our sales.

Now, there is still a lot to do from here on. We are preparing B2W for the future.

Q - Alexandre Ansent

Thank you very much. And congratulations for your figures.

A - Fabio Abrate {BIO 17940993 <GO>}

Thank you very much.

Operator

We close our Q&A session. I would like to give the floor to Mr. Fabio Abrate for his final words.

A - Fabio Abrate {BIO 17940993 <GO>}

I would like to thank the participation of everybody for our conference call. I would like to invite you to meet -- that you can find on our site, Americana.com -- Submarino ShopTime. Today we have our great sales in our Americana.com using our Submarino card. And also

visit Shobata and our travel and ticket side; everything to make the life easier of our customers, something that only B2W can offer.

Our investor relations team is here to clarify any questions.

Thank you very much and have a good afternoon.

Operator

Our B2W conference call has come to an end. We would like to thank everybody for their participation. And have a very good afternoon.

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