

## Q2 2012 Earnings Call

### Company Participants

- Fabio Abrate, IRO

### Other Participants

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

### Presentation

#### Operator

Good afternoon. Thank you for waiting. Welcome to teleconference B2W Companhia Global do Varejo to discuss results relative to the Second Quarter and first half of 2012. We have here with us today Fabio Abrate, IRO; and Murilo Correa, IRO of Lojas Americanas.

I like to inform you that this event is being recorded and participants are now in a listen-only mode during the presentation of the Company. Next, we'll start the Q&A session when further instructions will be provided. (Operator Instructions) This event will have its replay available right after its closure for a week. It's also important to remind you that this event has a support presentation that can be accessed at [www.b2winc.com](http://www.b2winc.com).

Before going on, we would like to clarify that any forward-looking statements made during this teleconference relative to business prospective with B2W, projections, operating and financial targets, our beliefs and premises of the management of the Company as well as information currently available. Forward-looking statements are not performance guarantees involving risks, uncertainties and premises which refer to future events and therefore depend on circumstances that may or may not occur.

Investors must understand that general economic conditions, industrial conditions and other operating factors may impact the future of B2W leading to results that differ materially from those expressed in such future considerations.

I would like now to turn over to the speaker who will start the presentation, Mr. Fabio Abrate. You may go on.

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

Good afternoon, ladies and gentlemen. I thank you all for being present in our teleconference for the results of the Second Quarter of 2012, first half of 2012.

First of all let me introduce myself. My name is Fabio Abrate, IRO of B2W. I've been in the Company for almost 10 years and I'm extremely excited with this new mission.

The results for the Second Quarter of 2012 have presented a gross revenue growth of 2.7% compared to the Second Quarter of 2011, showing a progress against the First Quarter of 2012, which makes us very confident.

We understand that we are on the right track and the time and resources invested so far already reflect great operating improvement which are also shown in internal and external indicators of client satisfaction, which are of course one of the great assets of this Company. Let's start our presentations now commenting the results for the Second Quarter of 2012 and our investment plan for the next three years.

On slide number 3, you have the main highlights of the Second Quarter of 2012. During this period, important results have been reached, we would like to highlight. Consolidated gross revenues of BRL1.1 billion in the Second Quarter of 2012, BRL2.2 billion in the first half of 2012.

Consolidated net revenues BRL996.9 million in the Second Quarter of 2012 and BRL2 billion in the first half of 2012. Submarino Card in the website sales reached 40% in the Second Quarter of 2012.

Evolution of PROCON Complaints presented a significant drop of 64% in the first half of 2012. Fitch Ratings upgraded B2W's rating to A plus was a perspective of stability. It will invest BRL1 billion in the next three years reaffirming its strategy of getting closer to the client.

Slide number 4 shows the consolidated gross revenue. In the Second Quarter of 2012, consolidated gross revenues reached BRL1.110 billion, a 3% growth against the First Quarter of 2011. In the first half of 2012, consolidated gross revenues reached BRL2.2 billion, a 1% growth against the first half of 2011.

Slide number 5, here we have the consolidated net revenue. The Second Quarter of 2012, consolidated net revenue reached BRL997 million, a 2% growth against the Second Quarter of 2011. In the first half of 2012, consolidated net revenue reached BRL2 billion, a variation of minus 1% against the first half of 2011.

Slide number 6 shows Submarino Card's participation in sales have been growing gradually and reached 40% of total sales with Submarino's site in the Second Quarter of 2012.

Slide number 7, we have the evolution of complaints ratings in the first half of 2012 compared to the same period in the previous year. We see a significant evolution in the

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complaints ratings. This is a reflection of the evolution of our logistic and operating processes which are pillars of our system.

The complaints at PROCON rocked significantly, 64%. In terms of the complaints at SINDEC, a National System for Consumer Support, we had a decrease of minus 56%. We also see significant drops in TJRJ, the Rio de Janeiro Justice Court, minus 56%.

Another important posting is the complaints at Reclame Aqui. For the last six months, Americanas.com, Submarino and Shoptime are the online retail brands with the best grade for service. All these sites were classified as good for this period.

Slide number 8, we're going to talk about the subsidiaries. B2W has always been trying to reinforce its multi-business, multi-channel, multi-brand strategy, still investing in Internet business. By the end of 2011, we launched SouBarato.com.br creating an important channel for a lower priced product with excellent performance showing great perspective for growth.

We are still investing in our tickets travels, consumer financing and rentals. In Ingresso.com, B2W following its expansion plan has been increasing its participation in other countries and is already present in 284 cinema rooms in Mexico, 139 in Chile and 83 in Argentina with a participation with cinema is still prospecting other countries to replicate its business model.

In Brazil, in Ingresso.com has a significant growth pace with great blockbusters for rooms with marked seats for 3D films.

Ingresso.com has been investing in improvements to increase the comfort and good use of its customers such as iPhone applications, Android operating system and using the Express cash-out to make the purchase process quicker.

B2W Travels operations start to grow and investing technology as a differentiator launching a platform for selling tickets by means of the mobile devices. And they still are offering services in three brands, Submarino, Shoptime, Travels as well.

In December 2011, we officially launched the operation of Travels in Argentina. Submarino Finance, the participation in its own card and sales, has increased significantly reaching 40% in the total sales of Submarino site in the Third Quarter of 2012. Submarino Finance has more than 730,000 cards issued.

Blockbuster Online with the highest members and titles of DVD, Blu-ray disks in Brazil, Blockbuster Online at present operates in Sao Paulo, state of Rio de Janeiro, Minas Gerais, Parana, Santa Catarina. And Rio Grande do Sul in addition to the Federal District. As of the end of 2011, Blockbuster also offers services of online rent games.

From as of slide 9, we are going to talk about the investment plant of the Company by means of which we are going to invest more than BRL1 billion in the next three years from

2013 to 2015.

Moving on to slide 10, we would like reiterate our competitive advantages. We have the largest digital customer base in Latin America. We have highest trafficked digital retail site in Latin America and we have the most powerful and most loved brand in retail brand in Latin America. We also have the twitter with the largest number of followers which is Submarino.

We have strong partnership with most important suppliers and we domained the market in 36 product categories. As we can see in slide 11, we have the largest logistic and technological platform of Latin America and business. We considered us to be the -- one of the 100 most important technological companies in the world and the three most important companies in the world. And we have the most successful digital retailers in Brazil together with the recruitment program and talent development that we implemented.

On slide 12, we are going to talk about the best digital retail platform in Latin America. It's important to remember that along the past two years we have worked strongly investing resources in the integration of our business platforms and integration of a solid infrastructure that allows us to operate by means of multi-channel method multi-brand. And after concluding this important investment phase, we are ready to grow and to be ever closer to our customers.

In line with its strategy, we are going to talk about the investment program on slide 13 and 14. For the next three years, we are going to invest more than BRL1 billion in 2013, 2014 and 2015 in technology, innovation and logistics. In the next 60 days, we are going to open 10 new distribution centers across the country and we are going to open more than 10 distribution center in the next year.

So we want to be closer to customers. We want to be the best shopping experience. We want to offer the best products, the best prices and the best navigation in our website making it easy for our customers to purchase. We want to offer the best deliver service and we are ever closer to the house of our customers and we are delivering in a reliable manner. We want to offer the best service. We want to enchant our customers. We are going to be fast and quick to respond to the problems. We want to be in the mind and the heart of our customers.

## Questions And Answers

### Operator

Excuse me ladies and gentlemen. now we are going to start the Q&A session. So that everybody can take part we would ask you to be brief in your comments. (Operator Instructions) Tobias Stingelin, Santander Bank.

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

Welcome to the Company. Let me ask you a question. I would like to understand a little bit better if you are so into that to grow. So how are you going to go about it? How are you going to consolidate growth with cash generation?

We can see there are many competitors who are de-accelerating. (inaudible) mentioned - - announced that its sales have dropped and they want to protect their stability. But -- so I would like to know the following. So how are you going to go back to growth, how are you going to generate cash and are you going to be able to manage this CapEx program in terms of investment?

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

Here we go, Tobias. Thank you very much for taking part. Welcome to our conference call. First, yes, we are surely more enthusiastic about the results of the Second Quarter, especially considering the results that we saw in the First Quarter of the year. We are ready to grow. We have invested a lot in the past two years. We have worked strongly in the integration of our business and technology platforms. And the plan announced for the next three years aims at growing in our sales.

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

Can you give us an idea? Are you more conservative? Are you sure that what to do for your services to increase? Are you sure that you can deliver within the deadlines? What kind of certainty can you provide us with? How are we going to make this calculation because in the past we saw that investments were made in terms of BRL1 billion and this amount was consumed in a very short time.

And we want to know how you are going to invest a longer time. Can you disclose this to us? Can you -- is there any driver that you can give us so that we can understand it better how the growth is going to happen from now on, considering all those leverages we have evolved in our complaint ) ratings?

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

This was a strategic point which was very important to all of us. It's one of the goal of the Company, is to provide better services and to get closer to the customers. So we showed for public indicators that have improved and without a doubt we are far from the level which is desirable.

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

Okay. In the line of others, we expected it to start dropping after all the problems you had in the past. After (BRL8 billion) , we can see BRL22 million in the quarter. What changed in this line or what's the trend from now on? What are those expenses that we see here?

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

There's no operating expenses in note number 13. We make some reference to it. But basically, these are expenses that are from the problems that we had in 2010, that considering the evolution of our indexes and the best of service provided to our

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customers, we expect this problem to belong to the past. So relative to 2010, yes, I think so.

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

In terms of all this investment. And all these distribution centers that you are going to open out, do you have anything to tell us about tax incentive, how you are going to benefit from that, how you're going to impact the margin?

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

As to the tax incentive, this is secondary to our process. The most important aspect of this plan announced to bring the clients closer is to be able to deliver better service quality. We have announced for the next 60 days, the opening of another 400 distribution centers, totally in line with our strategy. Our technological platform today enables us to advance like that. And for the next three years, we want to advance even more to decentralize the distribution of our goods, opening more another 10 distribution centers throughout Brazil.

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

Thank you very much.

**Operator**

Irma Sgarz, Goldman Sachs.

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

Could you please give us an update on the investment plan? In the release you say that you are contemplating investing more than BRL1 billion in the next three years. Could you please confirm what the target is for CapEx investment for this year? And also perhaps, could you give us some color as to how this BRL1 billion is going to be distributed in the next six years? Is it going to be more front loaded or more back loaded?

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

Thank you for your participation. As to the 2012 investment for the first half of the year, we invested BRL100 million approximately. It's important to say that this BRL1 billion investment plan is for the next three years, 2013, 2014. And 2015. For this year, in terms of investments, we expect to close the year around BRL270 million.

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

Would you please elaborate a bit on the leverage level? Piggybacking on Tobias' question, how do you see the leverage from now until the end of the year. And perhaps looking for the next years, or bearing in mind this aggressive CapEx investment plan. And also bear in mind that you are working with expectations to resume growth, which usually involves a lot of working capital in the online market.

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

Well for this year, the Company is very comfortable in terms of its cash position, in terms of its commitment for investment. As to the next year investments around BRL1 billion, we are going to approve budgets year after year. And we will be providing you further details in the next audio conferences.

## Operator

(Operator Instructions) Andrea Teixeira, JPMorgan.

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

Welcome Fabio to this IR work. You have a good knowledge of treasury. So let me go back to the question that has already been asked about the cash burn and debt. When we talked, you said that given this higher growth that you are aiming for. And you are also improving your service level, you already have delivery below five days, which is your guarantee. So looking forward, we are seeing this Christmas season as a bit uncertain. So this cash burn has to be very aligned, you have to start producing the revenue growth. So that you can meet this BRL1 billion CapEx.

So along these lines, if you reflect now, as far as growth is concerned, how much do you think you will be able to deliver in terms of growth in the second half?

The second question, how is your cash burn, or cash plan evolved in 2013. So that we don't have another issuance, because as you said you cannot anticipate another emission. We just would like to understand, if you have to incur into debt, if you can or cannot or if this CapEx be financed or funded by BNDES?

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

Thank you. Welcome to the audio conference. Yes. As you said, our delivery services have improved. But we believe it's still far from the levels we would like to have. We are very confident about the Fourth Quarter of the year, especially for Christmas. We have evolved in terms of sales growth in the Second Quarter, which makes us more excited about the end of the year.

As to cash burn, last year, we had a capital increase to readapt to our capital structure. In terms of the investment funding for this year, we are 100% sure for trusting our debt level. For the future, we have several options, funding is not an issue for us. First of all, we have cash, we have future cash generation, we can resort to traditional funding options, like commissions, increasing capital hybrid instruments. We have a positive background history with BNDES, which of course, can be a source of funding for the Company. So in terms of 2012 and future investment plans, we are right now not really concerned about funding these investments.

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

Well you talked about BNDES. What's the total line of credit there, could you remind us?

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

The credit lines have proved with BNDES the credit lines or the Group. So involving also Lojas Americanas and B2W, is around BRL1 billion. As to B2W we are in the neighborhood of BRL400 million.

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

And this investment in the 14 DCs for this year, another 10, is this included in this concept that you have to invest first and to be reimbursed later, is that it? Is this amount contemplated in this feature, those characteristics that they ask. So in other words you cannot use this to discount receivables but just CapEx for DCs, right?

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

Yes. That's an important point. We usually do not build DCs. There is a disperse of resources due to what's inside, one of the options that we have which is to invest first and recover these investments, in the future this is one of our options with BNDES. I repeat it's one of the possibilities. We're used to this option but we're not really concerned about this right now, where the resources are going to come from, where the funds are going to come from.

For 2012, we have enough cash. The four DCs are in the 2012 account and for the next three years we'll have the opening of more than 10 distribution centers.

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

So along these lines, what would be the cost for BNDES? If you are to analyze the options you have ahead of you, what would be the cost?

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

Well that varies a lot, Andrea. You have the traditional (film) cost. But according to our last transaction with BNDES, BNDES provided a mix of instruments and it would be hard to define it here for you. But BNDES is one of the most competitive sources that we have in the market to borrow.

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

Okay. Thank you Fabio. But I would like to know what we've been seeing in the players in e-commerce, we see a growth -- a higher growth in e-commerce and brick and mortar retail. What do you see happening? Is there a different mix of people more going back to brick and mortar retail? What do you see for the second half of the year? Are you more optimistic or do you think it's going to be gradual recovery?

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

First, we don't like to talk so much about the computation, we are very optimistic and it's mature markets. And we are in the competitive scenario. It's a -- sorry, it's a scenario of a more market without a doubt. So for the Third Quarter, you don't see any improvement in the growth rhythm. It's very similar to the previous quarter.

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The result of the Second Quarter obviously inspires us and makes us to believe that nicer times will come.

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

Thank you very much.

## Operator

(Operator Instructions) Irma Sgarz, Goldman Sachs.

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

Speaking about the evolution that you have shown in the Second Quarter, making you more confident about the relation of the business in the future, could you help us understand the evolution of the sales growth along the Second Quarter, was there any evolution that is -- started in a negative manner in April, maybe. And then you saw some improvement until you reached higher growth?

And if possible could you explain further what do you think is going to propel the growth of sales from now on? Is it going to be more traffic, tickets? That would help us understand this.

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

Yes. Well welcome again. Basically, this growth that we saw is the beginning of the collecting the benefits after having all platforms integrated. This is a point which is extremely important for all of us. We are going to continue taking this benefit and in line with our strategy to be closer to our customer, we have no doubt that this strategy is the correct one, we are delivering the best service levels and we have the best delivery and the best service provided to this customer. If we manage to tackle these three pillars without a doubt we are going to see other growth.

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

And what about the breakdown of the months of the Second Quarter, explaining the growth performance in sales? Could you provide us more detail about it?

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

Well I think this was a reflex of a combination of the three variables that you mentioned yourself, an evolution of those three variables which is conversion, traffic and ticket.

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

I refer to the evolution, looking from separate months, April, May and June. When you look at the growth year on year, did you notice an evolution? Could you elaborate on this, about the evolution? What was the variation across the three months?

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

Unfortunately, we do not disclose this information according to the months.

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

Thank you.

**Operator**

Excuse me, we close the Q&A session now and we would like to turn the call over to Mr. Abrate for his final consideration.

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

I would like to thank you for your attendance in our conference call and webcast. We would like to invite you try the comfort of the most beloved digital brands that our site can offer, Submarino, Shoptime have extremely excellent offers. Do not miss the offers in our sites of travels and bookings of restaurants and our IR team is available to answer any questions that you might have. Thank you very much and good afternoon to everybody.

**Operator**

Our B2W conference is over, we would like to thank for everybody's participation and have a nice afternoon.

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