

## Y 2016 Earnings Call

### Company Participants

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

### Other Participants

- Alan Cardozo, Analyst
- Franco Abelardo, Analyst
- Gustavo Oliveira, Analyst
- Olivia Petronilho, Analyst

### Presentation

#### Operator

Good morning, and thank you for waiting. Welcome to the B2W Companhia Digital Conference Call to discuss the earnings of the fourth quarter of 2016. Today we have with us Mr. Fabio Abrate, CFO and IRO of B2W; and Mr. Murilo Correa, CFO and IRO of Lojas Americanas.

Please use the supporting presentation to follow this conference call, available at [www.b2wdigital.com](http://www.b2wdigital.com). We would like to inform you that this event is being recorded, and all participants are in listen-only mode during the company presentation. Then we will begin the Q&A session, for which instructions will be given. (Operator Instructions) The replay of this event will be available at the end of the call for one week.

Before we proceed, we would like to clarify that any potential statements made during this conference call related to B2W business perspective, operating and financial goals and projections are based on the beliefs and assumptions of company management, as well as information currently available.

Such considerations are not guarantees of performance. They involve risks, uncertainties, and assumptions as they refer to future events, and therefore depend on the circumstances that may or may not occur. Investors must understand that the overall market conditions, industry conditions, and other operating factors could affect the future performance of B2W Digital and could lead to results that materially differ from those expressed in such future considerations.

Now, we'd like to hand over to our speaker who will begin the presentation. Mr. Abrate, please proceed.

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

Good morning, ladies and gentlemen. Thank you for attending our conference call. Throughout the presentation, we will comment on the results of 4Q '16 and 2016, the operating highlights and the investments made. After the presentation, we will have a session of Q&A.

We will begin with slide three, 2016 presented a challenging political and economic scenario with an increase of the tax burden, making products more expensive for consumers, higher household indebtedness and more restrictive credit in addition to continuously aggressive competition. In face of this scenario, the company has taken quick measures and made internal adjustments that were necessary to continue on its path of growth.

We ended 2016 with record sales and a gain of 0.7 percentage points of market share, achieving 26.2% and a total GMV of 12.5 billion, a growth of 10.6%. And then adjusted EBITDA of 688 million, a growth of 12.8%. 2016 was an important year in the transition of our business model from the operation of e-commerce to the digital platform. A combination of e-commerce Marketplace and services. With just two years, Marketplace has achieved 2.2 billion GMV in 2016, an increase of 153.4% and a share of 17.5% of total GMV.

Another significant change was a gain in penetration of the access by smartphones, which already represents 50% of traffic, reflecting a transformation in customer behavior. The B2W Digital platform is speeding up our virtuous cycle to generate value connecting the suppliers and sellers more and more increasing the assortment and offerings and attracting more and more customers.

Our priority is to offer the best purchasing experience for our customers, which once again have recognized our brand as the dearest on the web. Americanas.com has won for the fourth consecutive time the E-bit Award in the category Dearest Diamond Store by popular vote and Submarino won for the third time in the category Best Diamond Store according to technical criteria.

The five-year strategic plan from 2016 to 2020, B2W will continue to attract and develop the best talent investing in the digital platform transforming its processes and profitablizing its business front with a purpose of generating value for their shareholders.

Moving on to slide four, we'd like to highlight the evolution of the main indicators in the 4Q 2016. Total GMV achieved 4.4 billion, increasing 18.3%. Marketplace is still rapidly developing, growing 140.8% and achieving 862 million GMV with a share of 19.4% of the total GMV.

On Black Friday, the main event of the year, the company achieved a new record in sales and diamond and wool traffic on the Internet, with an increase of 6 percentage points in visit shares when compared to Black Friday in 2015. As a reward for the insurance

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company's efforts in offering the best experience on Brazilian Internet, we ended the year with 701,000 new customers.

On slide five, we'll talk about the details of B2W market share evolution. As a result of the investments made in the past years, B2W continues presenting market share gains, which increased 8.5 percentage points going from 19.9% in the first half of 2012 to 28.4% in 4Q '16. With that, this distance of B2W to the second player in this period increased 2.9 percentage point -- or from 2.9 percentage points to 16.5 percentage point.

On slide six, we have the digital platform and virtuous cycle of B2W. The company has the largest and dearest brands of the Internet, Americanas.com, Submarino, Shoptime and SouBarato, and the Marketplace operation that is quickly growing. The platform that we've built throughout the past years enables B2W to also offer technology, logistics, distribution, customer service and customer financing services.

In traffic, our brands recorded 1.6 billion visits in 2016 and throughout the year, we've connected over 2,200 sellers to the platform, increasing the assortment in 119%.

On slide seven, we highlight the quick development of Marketplace. With only two years, the Marketplace has reached 2.2 billion of GMV, a growth of 153% and a share of 18% of the total GMV. On 4Q '16, Marketplace achieved a share of 19.4 of the total GMV, a growth of 9.9 percentage points compared to 4Q '15. We connected 2,200 new sellers, doubling the base to 4,700 sellers at the end of the year. As a consequence, the number of items offered to the customers showed a growth of 200% compared to 2015, achieving more than 2 million products offered.

B2W Marketplace offers the best value proposal for the sellers that can access the brand with the best reputation on the Internet and a highly qualified traffic to leverage sales. The sellers can also count on the support of the service platform for technology, logistics, and distribution from B2W to deliver the best shopping experience for their customers. As a relevant part of the company's strategy, the Marketplace will contribute strongly to its growth and profitability.

On slide eight, we highlight the new partnership of the Marketplace. In line with this strategy to integrate new stores of several size and different sectors, B2W Marketplace made a partnership agreements with important stores like Electrolux, Som Livre, Ray-Ban, Chilli Beans, Technos, Estrela and Petz.

On slide nine, we show B2W Entrega, a partnership with the postal services that offers to small and mid-size sellers, the new option of freight using the B2W technology platform. The service streamlines and standardized the postal process increasing the levels of control with tracking of merchandise and reducing delivery cost.

On slide 10, we present BIT services, a result of the acquisition of 10 technology best-in-class companies, BIT services offers full solution in different verticals of technology to support e-commerce operations for B2W and the Marketplace sellers. The technology verticals are B Seller, which offers web store and ERP services; Sieve, online price

intelligence; SkyHub, integrations of stores to the Marketplace; Admatic, digital marketing; secured site, digital security; and InfoPrice, offline price intelligence.

On slide 11, we present the evolution of the distribution and logistics platform, resulting from the acquisition of two specialized transportation companies in the last mile and an operational agreement. The platform is responsible for delivering orders and rendering services to customers from B2W Digital websites, as well as rendering services for the Marketplace sellers and to the companies of the Brazilian market. By the end of 2016, B2W fulfillment achieved 95% of the total deliveries made by the company. B2W also operates 11 distribution centers throughout Brazil and 185 transit point operational centers strategically positioned.

On slide 12, we show the leadership position of B2W in migrating from e-commerce to m-commerce. Showing the change in customer behavior, the accesses through smartphones have been showing the significant gain of penetration and already represent more than 50% of traffic. The four apps from B2W achieved more than 5.7 million downloads throughout the year, a 105% growth. Our 4Q '16, a new responsive website was launched for Americanas.com and Submarino, and the implementation reduced by 26% the loading time of the website and increased by 10% the conversion of accesses by mobile device.

On slide 13, we highlight the evolution of the indicators for customer service. Throughout the 4Q '16, the B2W brands kept the highest levels of reputation at the Reclame Aqui website, while the competition shows a worsening of their levels of service.

With that, the average score for B2W went from 7 in 3Q '16 to 7.2 in 4Q '16, while the competitors showed a drop from 4.3 to 3.7. Likewise, the index doing business again of B2W went from 73% to 78%, while the competition showed a drop from 47% to 38% in the same timeframe. With that, B2W keeps its position as number one in customer service in the Brazilian Internet.

On slide 14, we highlight that CapEx showed a nominal reduction of 43%, going from 808 million in 2015 to 460 million in 2016. As a percentage of the total GMV, CapEX reduced by 7% in 2015 to 4% in 2016. And the CapEx coverage indexed by an EBITDA went from 76% to 150% for the same timeframe.

Lastly, we would like to thank the dedication of our employees that are part of the best digital team in Latin America. We would also like to thank our suppliers for their partnership, to the sellers of the Marketplace for choosing our platform, and to our shareholders by their confidence, and especially to our customers for their preference.

Those were the main highlights for our performance in the fourth quarter of -- end year of 2016. Now, we would like to open for Q&A to clarify any questions you may have, so that all of you have the opportunity to participate. We please ask you to be fast in your comment.

## Questions And Answers

## Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from Mr. Franco Abelardo from Morgan Stanley.

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

Good morning, Fabio and Murilo. I would like to understand, Fabio, your view as the CFO about the indebtedness of the company's cash throughout 2016. Just to give some figures using the numbers you use in the release, the net indebtedness increased BRL800 million. So there was a cash burn of BRL1.6 billion last year.

So my question is, what is wrong in the cash management? What is the problem that you're facing? Had you already identified it? And do you have an action plan to correct it? Because I think that in the current cash burn rhythm, a new capitalization of BRL1.2 million could be used in less than a year. That's my first question.

What is wrong and what's your action plan for the cash flow with cash burn? And the second question is, you mentioned a coverage EBITDA over CapEx, that's about 100%. But is EBITDA a good reference for cash generation knowing that the financial earnings have operational factors and cash burn that really gets in the way of the results? So, do you think that EBITDA this year will be able to be higher than the net financial earnings? Do you think you will have a less negative bottom line for 2017? Thank you very much.

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

Thank you, Franco. Good morning. In relation to your first comment, there is nothing wrong in the indebtedness dynamic of the company. What we do have is a reflection of all the investments that we made on our platform. So the company is 10 years old and if we take a look back to the history, 2007 -- 2016, our CapEx was BRL4.2 billion to build the business that we have today.

This platform with all of the characteristics that you -- that we've been offering the market and ready for growth, and even more than that, ready for sustainable growth. But throughout time, the 4.2 billion CapEx was being basically funded by third-party capital, which resulted in accumulated financial results in this period of 10 years of 5.7 billion. And when you add the three capital injections and the main one that we have been studying you pretty much have a tie. So in the 10 years is equal to the three investments that were made, and the other one that we're studying right now.

So that's a decision that the company made last year of operating in a leveraged manner and therefore we have to remember that when it was created in 2006, it was created with zero cash flow. So that's pretty much the contribution that we have and studying a new potential of a new investment of approximately 1.2 billion for 2017.

About the second question, in fact, one of the metrics that we closely analyze is coverage of CapEx by the EBITDA. In our opinion, the EBITDA hasn't necessarily covered CapEx, working capital and the financial earnings. So when we look at 2016, the EBITDA has

already covered CapEx and the working capital variation. And the only point of attention that's missing is the financial result, which as I said is a reflection of all the investments that we made in the company. And that we plan to improve the financial earnings with this potential investment that we're studying for this year.

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

So you imagine that BRL1.2 billion is enough to solve the current situation of indebtedness? With that, would you have an EBITDA coverage for CapEx and the financial results as well? Just so I can understand, just to see if I really understood what you said.

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

Actually, Franco, it's a makeup of, without a doubt, the contribution of 1.2 billion will be very welcome to improve the company's leverage. But in an addition to that contribution, the company has been going through a transformational phase. So the model has been quickly evolving. But we had a model in the past where we had traditional e-commerce and where we stock and sold merchandise to a model that we have the Marketplace, which is an extremely profitable operation which is also associated to many services that today I can offer for my sellers. So the deleveraging the company is a combination of this potential capital investment or contribution and plus the B2W business model.

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

Okay. And just so I understand about your working capital, if you have allotted a decrease in the receivables, I think that you can understand that because there is the receivables from Marketplace, they're different, but in the supplier inventories dynamics, why was it worse? And what's being done to look at that to try to get back to a level of relationship that you have with suppliers comparable to two or three years ago? Thank you.

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

Franco, in relation to the receivable, you are absolutely right. The Marketplace actions are approved on our platform and based on that there is a growth balance of receivables. And Marketplace doesn't require working capital. B2W users considers that is an intermediary and receive the commission on sales made. In relation to inventory, that was a recomposition of inventory for sales of 1Q '17 and I'd like to remember you that at the end of 2015 inventory was under the suitable levels and that reflected in low sales performance in 1Q '16.

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

Okay. Thank you, Fabio.

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

Thank you, Franco.

**Operator**

Our next question is from Gustavo Oliveira from UBS.

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

Good morning, Fabio; good morning, everyone. I have a question about your gross margin. You had an evolution year after year without considering the effects of consolidating the transportation companies, but then quarter to quarter when you are comparing one with the other it was a small drop. So I'd like to understand that. Now looking into 2017, is that effect changing the dynamics than when we forecast that? What can we consider? Is there going to be a seasonality effect or is 19.5 a more normal level for 2017? I'd like to understand the dynamics about your gross margin.

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

Gustavo, thank you for participating and thank you for your question. Our expectation is that, we have a gross margin that's going to evolve based on the combination of our e-commerce business plus our Marketplace business. So as we know very well, Marketplace is in fact an asset like business that extremely contributes to the company's gross margin given the reflection that we had in 4Q '16. So the largest part of margin evolution was in fact Marketplace coming in, which sold 862 million in the fourth quarter, which is exactly the entire sale of Marketplace in 2015.

But you can see that it's been strongly growing and it's also been strongly contributing to our margin. But besides Marketplace then, if we forget the competition, the margin of our e-commerce business also evolve as we focus on specific categories where we can operate better without a doubt. So our model is a hybrid model between 1P and 3P, and the combination of those two models based on that we believe that that will highly contribute in the future for the company's profitability.

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

Fabio, I remember that in the previous conference calls you mentioned that you are trying to change the less profitable 3P products or moving from 1P to 3P so you can improve margin and increase cash generation. Is that working or is that something that you are not quite focusing on to actually grow Marketplace?

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

Yes, we are doing that, Gustavo. Our trade area is dedicated to have a better balance between 1P and 3Ps, and that's something that we've been speeding up and we've been getting good results from that.

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

Okay. One last question, Fabio. About CapEx for 2017, obviously there was an expressive drop in 2016 and we can understand that based on the previous investments in other years, but what are you forecasting for 2017?

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

Well, Gustavo, in fact we had a strong evolution when we compare 2016 to 2015. Our CapEx in 2015 was 4% compared to 7% in the previous year. We invested 208 million and we invested 400 million, so it's an increase of 43%. CapEx for 2017, I think that the company needs to continue to invest our business is still under construction or being built. And most of the investments from now on will be dedicated to speeding up the Marketplace.

And what three years ago was close to zero in our traffic and more than 50% of all the accesses of the company are already made by mobile devices. The figures for 2017 are still being discussed, it's still being budgeted with our Board of Directors and the goal is to continue to develop the two indicators that we have been following and showing the market.

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

But there won't be a drop like it was from 2015 to 2016 it will be an increase, right.

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

I can't give you a figure right now. We will tell you later what that figure will be for 2017.

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

Okay, thank you.

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

Thank you.

**Operator**

Next question Joseph Giordano from JPMorgan.

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

Thank you. This is Olivia, thank you for taking my question. Could you just give us an idea for the GMV growth for this year with the new penetration of the Marketplace? How much penetration, how much it's going to grow? And if you can also give us an idea of the competitive environment, if you've seen any change from 2016 to 2017? Thank you.

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

Hi, Olivia, thank you for your question. Our goal will continue to be to grow above the market. So the figure that we have for 2017 at the moment that were disclosed by a bid is a growth of 12% and our goal is to grow above those 12% hardly boosted by our Marketplace.

In regards to the competitive environment, you're right. In fact, what we see in the market is that some competitors are not doing so well. But this has not been shown in a less competitive environment, so we have expectations that for 2017 we will still face a very



competitive environment, but again if the market grows 12%, we're going to grow more than that.

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

Thank you very much. I have one additional question. A follow up on the project of Marketplace structure, upstart to charge the receivables separate.

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

Thank you for your question, Olivia. Actually the Marketplace seller has two options. One, when they have paid 100% of the receivables or they do that when they find it's necessary and both fronts are being very positive. We've been having very positive feedback from the sellers in the Marketplace. So a little bit two option that we offer and they chose, at the end of the day, the one that has been suitable for their business.

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

Thank you very much.

**Operator**

Next question. Alan Cardozo from Haitong.

**Q - Alan Cardozo**

Good morning. I have two questions actually. The first one, can you explain better this worsening of the working capital that comes within the Marketplace? It will be worse because the receivables are for B2W, but they are offset by the suppliers. So the working capital should be zero or positive than B2W. So I would like your explanation because that was not what happened in this fourth quarter?

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

Hi, Alan, thank you for your question. Actually, there are two different views. Since we anticipate all the sellers that erasing or writing-off for those sellers means that the payables that we've to calculate the working day -- capital days, you'll know that for 100%. So when we look at the combined view, you don't have a positive effect of the payables and you have the negative effect of the growth receivables.

**Q - Alan Cardozo**

So can you share with us what are the impacts of this migration from e-commerce to mobile? I think that the consumers downloads your app and he looks at less fewer options, because it's more comfortable to do that on the mobile phone. So I would like to understand a little bit of the traffic and the competitive environment. How does this switch to mobile affect the bottom line of the company?

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

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Thank you for your second question. In fact, it's a very large impact. Three years ago, as I said, we -- the traffic didn't exist by mobile devices and now it represents more than 50% of all the accesses. The company has been investing throughout the years strongly on that platform. So, everything that we do in the company today is developed first for mobile, which is the concept of mobile first and then we adapt it for other platforms like tablets, laptops, desktops.

So we've been coming strongly with that to have the best mobile platform. When we look at the indicator of the customers in regards to our app, they are the best evaluated at Google Play and the Apple Store -- so -- which is great for us. Because the biggest challenges in fact in the mobile world is to convert traffic into shopping. So the better your app, the better your sales. So the company has been heavily investing in that front.

### Q - Alan Cardozo

If you compare that traffic vis-a-vis with desktops, what do you think? Do you think that the conversion rate is higher? Is it better with the app or you can also get a lot with Google, because I think that a lot of customers go straight to the B2W website without going through Google? So how is that impacting financially having more traffic through mobile than through the desktop?

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

Well, the conversion of mobile is lower than the desktop. Conversion due to the nature of the device itself and we have a dedicated team for that, because that's the trend for the future of the company, has to be ready to relate to their customers through smartphone and we also spent more on that. So, we have more engagement of the customers through these devices than through the other devices.

### Q - Alan Cardozo

Perfect. My last question. I don't know if my math is right, but I try to calculate the Marketplace in your results. I get the gross revenue and I subtract the GMV total to get to the GMV of the Marketplace. This was around 12% for the past quarters, but in this quarter it was 10.7%. I don't know if there is a distortion in the gross revenue or if you used a take-rate lower in this quarter. Why -- if you did that, why?

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

Alan, the take-rates varies on average between 11%, 12%, pretty much a result of the mix that sold. So it has that effect according to sales, but it's been generating from 11% to 12%. In this quarter there is no reduction here, based on a calculation that I just did, yeah, probably. We can help you out with that later giving you a more precise calculation of that.

### Q - Alan Cardozo

Perfect. Thank you very much for your answers. Thank you.

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

Good morning.

## Operator

The Q&A session is now closed. I'd like to hand over to Mr. Fabio Abrate for his final comment. You may proceed.

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

Thank you for everyone for participating in our conference call and webcast. I'd like to take this opportunity to invite you to check our major offers on the dearest brands of the Brazilian Internet, Americanas.com, Submarino, Shoptime and SouBarato. If you have any further questions, our IR team is available. Thank you, and good morning to you all.

## Operator

The B2W conference call is now closed. Have a good day, and thank you for using Chorus Call.

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