

Q2 2015 Earnings Call

Company Participants

- Fabio da Silva Abrate, Investor Relations Officer

Other Participants

- Andrea Teixeira, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon and thank you for waiting. Welcome to the B2W Cia Digital Conference Call to discuss the results in relation to the Second Quarter and First Half of 2015. Today with us, we have Mr. Fabio Abrate, CFO and Investor Relations Officer of B2W; and Murilo Correa, the CFO and Investor Relations Officer of Lojas Americana.

We would like to suggest that you better enjoy this conference call. Use the presentation which is available at www.b2wdigital.com. We would like to inform you that this event is being recorded and then all participants will be in listen mode only during the company's presentation. After that we will begin the Q&A session, when instructions will be given at that time. (Operator Instructions)

Before proceeding, we would like to mention that any forward-looking statements that may be made during this conference call relating to the company's business prospect and projections operational targets and relative to its financial growth, constitute in predictions and the information that is currently available.

Future events are not a guarantee of performance. And therefore they depend on the circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions and other operating factors may affect the future performance of B2W Digital and may lead to results that are materially different than those that are expressed in such future consideration.

Now I'd like to give the floor to our speaker, who will begin the presentation. Mr. Abrate, you may proceed.

Fabio da Silva Abrate {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen. I would like to thank everyone for taking part of our conference call. We will talk about the results of the second quarter and first half of 2015. Now I'd like to invite everyone to begin our presentation with slide number two, where we will talk about the main consolidated indicators for 2Q '15 appeared in which we achieved important result considering a very challenging macroeconomic scenario in a tough competitive environment.

Throughout the quarter, B2W Digital was able to balance out the main business variables, joining sales growth with margin expansion. In the second quarter, GMV achieved R\$ 2.4 billion, 24% higher year-over-year.

In the half-year, GMV was R\$ 4.9 billion, which represents a growth of 27% year-over-year. The GMV is an indicator that does reflects the sales generated in the B2W site joining direct sales, our own inventory with our sales of third party marketplace.

In the second quarter, gross profit was R\$ 476 million, a growth of 15.1% year-over-year. Gross margin when calculated on net revenues was 25.2%, an expansion of 0.1 percentage point year-over-year. The adjusted EBITDA for the second quarter of 2015 was R\$ 140.1 million, with an increase of 20.7% year-over-year. The Adjusted EBITDA margin when calculated on net revenues were 7.4%, expanding 0.4 percentage points year-over-year.

Now moving on to slide number three, we'd like to highlight with the results of 2Q '15 where GMV was 24% higher for the 12th consecutive quarter. We have presented growth at levels above the market, which increased 4.5% this quarter according to EBIT consulting, recording a market share gain in consolidating our position of market leader.

On slide four, we would like to highlight the market share increase of B2W Digital between the first half of 2012 and the first half of 2015. In this period, we gained 5.9 percentage points of market share, leaving 19.9% and 1H '12 to 25.8% in 1H '15.

And we increased the distance from the number two competitor in 3.4 percentage point.

Now on slide five, we'd like to present the strong growth of the share of mobile devices in traffic and in orders placed in the B2W Digital brands, which consolidates our position as a leader in M-commerce as well.

In 2Q '15 the share of mobile devices in traffic achieved 32% compared to the 17% in 2Q '14, meaning an increase of 15 percentage points. In 2Q '15, the share of mobile devices in order placed was 18%, compared to 11% year-over-year, which represents an increase of 7 percentage points.

B2W was the only company in Latin America present in the top 30 relevant of the highest sales of mobile in the world and the top 20 of largest growth in sales and dollars according to Internet Retailer Mobile 500 Edition 2015.

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Moving on to slide six, we'd like to highlight the quick development of the market base platform, with a little bit over a year in operation, marketplace sales have achieved R\$ 150 million in Q2 '15, increasing 17 times year-over-year and obtaining 7% of share in the consolidated GMV.

The operations growth is a reflection of all the initiatives to improve customers purchasing experience, which increased 60% since the beginning of the year, confirmed by research methodologies that were made with customer.

Now moving on to slide seven, we'd like to highlight the important new partnerships that were averaged at marketplace with Staples, Motorola, Emporia Cerveja, Mobly, orange, Singer and madeiramadeira. Therefore, we reached the end of the quarter with over 1,000 sellers on this platform and increased the product assortment eight fold year-over-year.

On slide eight, we would like to highlight the acquisition of Sieve Group. The Sieve Group is made up of five technology companies which are best in class. Sieve which is specialized in pricing intelligence for online stores, Site Blindado which is specialized in security and digital certificates. And SkyHub specialized in the integration of online stores to marketplace. Admatic which is specialized in digital marketing and InfoPrice which is specialized in pricing intelligence for brick and mortar stores.

The companies that were acquired have over 2500 customers and over 8,000 sites which are monitored, including the main players in the market. The purpose of this acquisition is to speed up marketplace and provide the best services platform for virtual storage in Latin America in order to provide the largest assortments for B2W customers.

On slide nine, we would like to highlight another reflection of the investment made in the technologies and logistics platform. The company choosing major brands to operate its online platform.

Recently, B2W Digital was chosen to operate exclusively in Brazil, the Xiaomi online store, one of the largest cell phone manufacturers in the world. B2W is also operating the smartphone customization site for Motorola, which is called Motomaker, as well as the online store for NET, which is the largest company for converging services by cable in Latin America. Other companies such as Ambev and the Quilometros loyalty program BRF and Motorola all use B2W's online solutions. B2W is also the official operator of online retail for the Olympic Games and Paralympic Games in Rio 2016.

Slide 10, we can highlight that B2W Digital was the great winner of the e-Bit award straightening the position of the brands, of the company as the most dear in the Brazilian mentioned ad.

American.com was chosen the most dear Diamond store, and awarded with top five diamond stores and somo de novo won on the Diamond store award also awarded with the top five Diamond store.

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On slide 11, we show the growth of our business model, by the end of 2012 we announced our investment plan in three years 2013, 2014 and 2015, aiming at being closer to the customers, creating a unique digital experience through technological and logistical platform capable of facing the challenges of the e-commerce, visit any e-commerce market, capturing its many opportunities to grow. This investment plan had the object of supporting the growth of our direct sales platform 1P and the growth of our marketplace platform, BBB, speeding the eco system, B2W first solutions in e-commerce.

As part of this process, we acquired 11 companies in the past 2.5 years, nine technology companies and two merchandise transport company are leaders in the BB segments and specialized in e-commerce in Brazil.

After the integration of these companies, we created B2W services which support all our business trend, growth and profitability. Still under construction B2W services already produced important results in different activities front.

The creation of the sellers, result of acquisitions of technology Uniconsult company and IDEAIS company, being a full platform for marketplace sellers and online stores, offering back office and front end services.

The creation of BFF B2W Fulfillment a full solution, full storage and delivery in the entire country is a result of the integration of good transport economy, companies Click Rodo and Direct with the main technology developed by Uniconsult and IDEAIS and TARKENA, the logistic service and distributions are pointed out as one of the most important to the development of e-commerce in Brazil. And are also essential for the gain of scalability and market place sellers.

The sellers at BFF have access to the site menu of making available to the customers different levels of service for delivery including the same day delivery option. BFF also makes available several other services, including storage and distribution and multiple account places.

The acquisition of the e-smart, Admatic, Sieve Enterprise, Site Blindado and SkyHub added to B2W services ecosystem important technology, further growth and optimization of online operation. The sellers of marketplace now have full support in all their needs for technology to develop their businesses.

On slide 12, as a consequence of the evolution of our digital platform, we show the current business structure of the company. Ours direct sales platform 1B have the most dear brands of the Brazilian e-commerce together with the best base sub sellers in marketplace 3B.

Our structure also has a consumer credit platform called DIGITAL FINANCE and Submarino Finance and a platform to sell ticket Ingresso.com. More recently we put together our 11 companies acquired in one single unit ecosystem B2W Services or service units for technology and logistics in e-commerce.

Slide 13, shows the reinforcement of our view of being the bigger and the most dear digital company in Latin America. Lastly, I would like to thank the dedication of our employees that are part of the most successful and better digital team in Latin America, and I would like to thank our suppliers for the partnership, our shareholders for their trust, especially our customers for their preference.

These were the main comments regarding our performance in the second quarter and first half of 2015.

Now I would like to open for Q&A to clarify any questions that you may have.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Andrea Teixeira from JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello, good afternoon. Thank you, Fabio for your comments. I have one question about the competitive environment. You continue obviously improving -- because with comparison, you're improving your mix. And part of your mix is going to fashion products in other category. How do you see this improvement in purchase. And on the other hand maybe your better result competing more in price, so how will be your strategy for Black Friday and for the end of the year in regards to price, in categories in which the price memory is higher and in which decision made on price is higher.

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

Thank you, Andrea for participating. In regards of the competitive environment, we're experiencing the same environment that we have been experiencing for the parts two years, in fact it became even tougher during the last quarter. We think that we were able to deliver good results. We grew, as published 24% in GMV with an expansion of the gross margin and also the EBITDA margin.

In fact, we had a comparison base that was very strong, remember the seasonality of the previous year, we had the World Cup, we grew in the second quarter 38%. So we were able to overcome this barrier and grow 24% on this very strong base, again expanding gross margin and also EBITDA margin. What we did see in the second quarter was a greater participation of the categories that are not electronics, so the company has been making an very hard effort in bringing more assortment, especially those in which we can operate with a higher margin and market place comes to help this strategy. So we believe that we were able to balance the growth -- strong growth in GMV, combining direct sales with marketplace and balancing the variables of sale.

For Black Friday, the company is already getting ready, obviously to operate Black Friday. As you well know, in one day we sell the equivalent of one month. Last year, we had a very relevant participation in that event.

We had 40% of Black Friday share in Brazil, it's not an easy business, it's not small, but all the investment company that the company has been doing are exactly to operate not only on the daily basis, but also be able to have these large events, you have to have a platform capable to support the number of access that is huge in a very short period of time and especially after the customer buys, we have to be able to deliver as soon as possible. So we are getting ready for that, for next Black Friday and for the other events at the end of the year.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And since mobile is growing more, has that always -- also change that mix (inaudible) and do you think that since customers or that our customers are more concerned about price and how can you use technology to change, to improve that conversion from the mobile customers.

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

Thank you, Andrea. Yes, mobile is growing strongly, it currently represents 32% of the traffic and 18% of orders placed, it's growing strongly compared to last year and that because of the investments that we've been making in this platform.

The company is currently dubbing a lot of effort in improving all that and all the dynamics to interact with the customers via mobile. The mix itself, we still haven't really seen any major differences between the customers and buyers on their desktop or the one that you think mobile.

What we've actually seen is how you relate to your customer via mobile, I think that platform is very important in essence. We've been learning a lot and these figures already indicates that we've been able to get on a very positive path in these platforms and mobile devices.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you.

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

Thank you, Andrea.

Operator

Our next question is from Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Hi, good morning, everyone. Congratulations for your evolution in marketplace and the Sieve acquisition. My question is on marketplace. You have a 7% GMV in the second quarter with over 1,000 sellers in the platform. I'd like to understand, how the Sieve acquisition should speed up that process to develop market place and I'd like to know if you think that you can reach two-digit share in GMV this year.

And I'd like you to comment on some of the figures that you also mentioned in the last quarter, reaching 8,000 sellers 8,000 stores in the next 12, 18 months, do you think that's still possible. And then how that can help your EBITDA margin. Thank you.

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

Hi, Franco. Thank you for participating. Yes, in fact our market place has been in operation for a little over a year, and we've been going fast in the second quarter, we sold R\$ 158 million, with a 7% share of the GMV. We grew 17 fold compared to the second quarter of 2014 and when we compare that to the first quarter of this year, we doubled, we doubled the levels, we doubled sales. So it's really strong. Today our assortment is eight times larger than last year.

We have over 1,000 sellers on that platform and we're ready to double our size. So in the short period of time, we have the mission of integrating at least one thousand stores and mainly because of the acquisition of Sieve.

So inside Sieve we have the SkyHub, it's a company that specialized in integrating stores to marketplace platform. This company had 8,000 websites which were monitored. So the 8,000 in the past or the 8,000 SkyHub sites that are now ours.

So we're going to have even faster speed and out of those 8000, we've met a 1000 of them, (inaudible) base this year. So our expectations is to double in size and sellers inside our platform by the end of 2015.

Today we have approximately 7% thinking of two digit, isn't two different than what we are expecting. We do believe that by the end of the year if we think of two digit share that's pretty doable.

Q - Franco Abelardo {BIO 17416219 <GO>}

And another question about CapEx, 316 million in the first quarter and it dropped

year-over-year, so that's an interesting evolution. So I'd like to know, how much you see as CapEx in the second half, if you can think of the same level. And I'd like to understand when the Sieve acquisition 131 million will be deferred, is it in the first half. How will you make those things, what's that going to be like?

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

Thank you, Franco. In relation to CapEx, we've been evolving year-after-year. There are two important indicators in this case that we should follow. The first one is CapEx over net revenues. And the other one is the CapEx coverage by the EBITDA. So a couple of figures. In 2013, CapEx was 12% of our net sales, in 2014, 10% and now in the first half, we're close to 8%.

In terms of coverage of CapEx by EBITDA, we did add 60% in 2013, and then to 70% in 2014 and now in the first half of the year we are reaching a coverage of close to 90%.

So we've been evolving our percentages of net revenues and also the CapEx coverage by EBITDA. So what should we expect until the end of the year? We believe that these two indicators for the first half are good drivers 8% and the coverage of close to 90% with the purpose of closing the year at a nominal CapEx, lower than the previous year obviously at a much higher sales level.

In relation to Sieve, the acquisition of the five companies was 135 million and the idea is that half the amount should be paid this year and the other half should be paid in the following year.

Q - Franco Abelardo {BIO 17416219 <GO>}

Great. Thank you.

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

Thank you.

Operator

Our next question is from Guilherme Assis from Brazil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, everyone. Thank you for taking my question. I'd like to go back to two points that were already discussed. The first one is in relation to the contribution of marketplace, not only in relation to sales and the GMV that you mentioned that was 7%, but also I'd like to know how that contributes to the company's gross margin, the 7% and what should we expect from now on.

And the second question is also is about the competitive environment, you mentioned Fabio that it's very aggressive in the second quarter. And we also heard that the management in the other call that was adopting a strategy to price, with a discount of 5% to 10% compared to the competition.

So I'd like to know how you are responding to that, the aggressiveness of that specific competitor. So are you following price, are you maintaining your own prices, and how is that influencing your gross margin. Those are my questions. Thank you.

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

Hi, Guilherme. Thank you for your participation. Marketplace is becoming more and more relevant in our business, the figures that are announced show that 160 million and the GMV for the second quarter and the contribution is the separation. So we grew 16% [ph] in gross margin and in GMV we grew 24%. So that 8 percentage points compared to last year is marketplace contribution in the company sales.

Obviously, as you know, this is an operation of pure margins, there is the sellers take rate and that comes in as a pure margin. And within our margin of 25.2% presented for the

quarter, there is a contribution that's coming from marketplace, its little bit sigh, that's true. But when we look into the future, we believe that marketplace will still have a lot of relevance in the company's GMV and also more contribution to the company's gross margin, because when we look at the more mature operations outside Brazil, market place has a relevance of 60% in GMV and a contribution of 15.2 the gross margin.

So I believe it's a good benchmark, so that in the long term we should achieve that. In relation to the competitive environment, in fact we are experiencing a very tough competitor environment, as we will mention, the competition strategy is price and our strategy is not price. Obviously, we have to face the competition and that when it does make sense, but our business is to continue to grow more than the market, gain market share, but overall finding a balance of profitability in the variables that are different in price.

Q - Guilherme Assis {BIO 16143141 <GO>}

Fabio, so if we can, so my understanding at least this quarter, which is a very competitive quarter is that -- there is a mix effect of course on your gross margin, but in a more simplistic view, would it be correct to say that you are using the potential gain of marketplace to become competitive. And in the other categories and then using the potential to gain margin, so that you can still continue to gain market share in pure e-commerce or is that not the strategy for (inaudible) getting that better.

And what do you expect from now on, if marketplace will effectively contribute to margin growth or should we expect that you want to use that potential gain that marketplace has to continue to gain market share or speed up the market share gain from now on, so then we should expect a flatter margin, a flatter gross margin, is that it?

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

Thank you again. The main goal for the marketplace is to better serve our customers, bring more assortment to our business and the company to consolidated sales as the main purchase reference in Brazil. So that's our main goal of marketplace and obviously as I said before, it contributes greatly to the margin, but it's not part of our objectives to use this margin to become more competitive for direct sales of goods.

We want to continue to grow. Direct sales, we want to continue expanding marketplace and also deliver a gross margin that is even better. So that's our goal and that's the dynamics of the company.

And looking forward, as I said, we want this business to become increasingly important and relevant. We are already growing organically in a very strong way. We have the expectation to double the number of sellers by the end of the year, so this will give us a very strong boost to grow GMV. So undoubtedly from here to the end of the year we will have marketplace contributing even more to our GMV and especially to the Company's margin.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay, Fabio. Thank you very much. Can I ask one last question then. Part of the strategy has also been the acquisition to focus platform, both in terms of system and we saw the last acquisition of Sieve taking place in this quarter. Is there any area that you think is still lacking for you to fulfill the infrastructure that you want to offer to your customers, should we expect more acquisitions from here forward or have you already completed all the service areas that you intend to?

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

In fact, the acquisition, the five recent acquisitions added to our B2W Services this unit that helps with the growth of 1P and 3P. I would like to remind you that B2W Service is an initiative first to better service our customers. And second, it's an initiative for margins, for the company and we are always monitoring them. I can't give you any tip about what we're looking at, but in fact everything that is important to help the platform to grow and to continue to service our customers well.

We will look at and if it makes sense, we will purchase anything that will help purchasing and improve our business.

Q - Guilherme Assis {BIO 16143141 <GO>}

And you also saw Submarino Viagens recently, is there any service that you think is a non-core base that you could also sell or do you think that now you already have the structure that you want to have.

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

We believe that we're very close to the structure that we need and we don't have any other operation under our radar like B2W Viagen.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thank you. Fabio. Thank you.

Operator

Our next question is from McCauley Louis [ph] from Bank of America.

Q - Unidentified Participant

Good afternoon. Thank you for taking my question. I have two questions. First, Fabio, can you talk a little bit about the profile of your sellers at marketplace, will they always be in the other market place websites like MercadoLibre. And how the economics are different from your sellers compared to others.

My second question is, how do you see your sales in June. I know that the first quarter was a little bit tougher, then third quarter is a little bit. So you're seeing the growth rate speeding up, are you looking to 20% or are you still in the high teens?

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

Thank you, Nicole. We don't work with exclusivity in our marketplace sellers. We believe that that's a consequence of a service rendering, of a better service rendering. As you well know, we have the dearest brands in Brazil, we have the largest amount of traffic, 40 million hit visitors per month. It's a qualified traffic in our website and we also have several additional services to offer to our marketplace sellers like the Seller, which is a technology platform and B2W fulfillment that we can store and distribute the products from the sellers.

So the main need to operate e-commerce in Brazil which are those to meet the needs of the sellers of the marketplace, we can help them with. And the economics of this business come from these layers that you can offer to your seller from the most basic one which is to list first (inaudible) all the way to the most complete layer which is in addition to all that offer the Seller and also offer the logistics platform.

Also, with the acquisition of the five technology companies from C group, now we have even larger service portfolio to offer to our sellers. So we have a full solution going through pricing intelligence, also digital marketing, security certification and also all the (inaudible) of the online store for these sellers. So this exclusivity will come naturally because of all these platforms and services and technology that we offer to these sellers and also because these sellers will be integrated to the main e-Commerce in Brazil with a huge traffic, as ours is a very well qualified traffic.

Now about your second question. We follow being very optimistic this year looking the first and second quarters together and we grew 27%, against a very strong base of last year. And if we exclude the effect of the World Cup on both basis, so you can have some kind of reference. Our 27% growth would have been close to 37% growth. So 10 points more of growth, so this only encourages us even more to continue to manage our business in a consistent and valid way with all these variables.

Q - Unidentified Participant

Thank you. Fabio. Thank you very much.

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

Thank you.

Operator

(Operator Instructions) The Q&A session is now closed. I'd like to give the floor to Mr. Fabio Abrate for his final remarks.

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

I would like to thank everyone for participating on our conference call and webcast and take this opportunity to check out the great offers at americanas.com and (inaudible) short time. Also visit our online outlet SouBarato, all that with convenience in security that only

B2W Digital can offer. In addition to that our Investor Relations team is at your disposal to clarify any eventual questions you may have. Good afternoon, everyone.

Operator

The B2W conference call is now closed. Thank you for your participation. Good afternoon and thank you for using Chorus Call.

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