

Q1 2014 Earnings Call

Company Participants

- Fabio da Silva Abrate

Other Participants

- Alexandre Amson
- Andrea F. Teixeira
- Bruno Soares Taveira
- Fabio Monteiro
- Gustavo Oliveira
- Irma Sgarz
- Tobias Stingelin

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon and thanks for waiting. Welcome to B2W's Conference Call to discuss the results regarding the First Quarter 2014. Today with us are Mr. Fabio Abrate, Investor Relations Officer of B2W; and Murilo Corrêa, Investor Relations Director of Lojas Americanas. For you to better follow the conference call, please refer to the slides at www.b2wdigital.com.

We would like to inform you that this event is being recorded and that all participants are going to be in listen-only mode during the company's presentation. We will then start a Q&A session, when further instructions will be provided. The event's replay is going to be available soon after its closing for a period of a week.

Before moving on, we would like to let you know that any statements made during this conference call relative to B2W's business outlook, projections, operating and financial goals are based on the company's management's assumptions and beliefs, and rely on information currently available. Forward-looking statements are not a guarantee of performance.

They involve risks, uncertainties and assumptions since they refer to future events, and therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of B2W Digital and lead to results that will differ from those in such forward-looking statements.

Now, we are going to turn the call over to our speakers that's going to start the presentation. Please, Mr. Abrate, you may go on.

Fabio da Silva Abrate {BIO 17940993 <GO>}

Good afternoon, ladies and gentlemen. I thank you for attending our conference call to discuss the results of the first quarter 2014. Before starting, I would like to use the opportunity to congratulate all mothers for Mother's Day to be celebrated next Sunday. Now, we are going to start the presentation with slide number two. B2W Digital started the year of 2014 by announcing a capital increase of R\$2.38 billion, basically to improve the company's capital structure, and resources obtained by means of this increase will be used to amortize our debt.

Capital increase, approved on April the 30th by CADE, the Economic Defense Administrative Council, will enable the company to continue investing in its core business, expedite growth and consolidate its position in the market. This operation reinforces the trust of our controlling shareholder, Lojas Americanas, in the strategy and business model of B2W Digital, and also by means of its investor's participation, Tiger Global, that we are on the right track.

In the first quarter 2014, B2W reported gross revenues of approximately R\$2 billion, an increase of 30% when compared to the same period last year. That allied to a growth of 47% in adjusted EBITDA, reaching R\$100 million (sic) [R\$109 million] (03:51), 6.3% of net revenues, an expansion of 0.6 percentage points, and also an improvement of 45 days in our net working capital. With the results achieved in this quarter, the company completes seven quarters in a row by growing sales above the market, gaining market share, showing consistency in its strategy and evolving in all other performance indicators.

Sales growth of B2W Digital reflects the improvements and changes that were implemented in recent years so as to be closer to our clients and offer the best purchase experience on the Internet both in Brazil and in Latin America. B2W continues to enhance its assortment with the products clients aspire. In April, we launched the fashion category at Americanas.com, the largest web store with the lowest prices. The new category comes to be democratic, popular, varied, and each season we'll bring new collections, always following the fashion calendar.

Another highlight was the innovative launch of the online sales of health care plans for pets on Americanas.com, Submarino and Shoptime. Plans have different coverages for dogs, cats, including routine appointments, surgeries, emergency care and others. In the month of April, we opened the second BIT, B2W Innovation and Technology, located in the City of São Paulo, the main work market in Brazil. This was inspired in the largest innovation and entrepreneurship world centers. The idea is to have a technology team based in São Paulo and also attract new digital talents for the company.

Now, going to slide three, we have the main consolidated highlights for the first quarter 2014. In the period, important results were accomplished, some of which are; gross revenues up by 30.2% reached R\$1,974 million; net revenues growth of 33.2% reaching

R\$1,730 million; gross income, up by 32.3% reaching R\$419 million; gross margin of 24.2% of net revenues; adjusted EBITDA, up by 47.2% reaching R\$109 million with EBITDA margin of 6.3% of the net revenues, evolution of 0.6 percentage points; consolidated working capital evolved 45 days reaching 37 days on March 31, 2014.

On slide four, we show that the result of the first quarter 2014, where we grew 30%. Over a strong base of comparison, we reached the seventh quarter in a row of strong sales growth. On slide five, we highlight the results of B2W Digital in the past 12 months period, in which the company reported gross revenues of R\$7.4 billion approximately, a growth of 28% adding R\$1.6 billion in sales for the business.

On slide six, we show that on April the 30th, 2014, the Economic Defense Administrative Council approved B2W capital increase of R\$2.380 billion upon the issuance of 95,200,000 ordinary shares at a price of R\$25 per share. The funds of this movement will be used to amortize part of our debt, so that the company can continue investing, accelerating growth and consolidating its leadership position in the market. The operation is still subject to the approval of the company's General Shareholders Meeting.

On slide seven, we show that B2W Digital launched the fashion category at Americanas.com. After the success of the fashion category in Submarino in July 2013, B2W launches at Americanas.com under the concept of fashion for all with exclusive collections. This is in line with the company's strategy to continuously increasing its assortments with the products that customers aspire.

Going to slide number six (sic) [eight] (09:00), we highlight the launching of the pet health care plan. In April, B2W started selling health care plans for pets online on Americanas.com, Submarino and Shoptime. Pet owners can have different types of plans according to emergency needs or routine needs of their pets.

Plans have coverages including routine appointments, surgery, emergency care, home visits of the injection of vaccines, specialized hotels, and even implementation of identification micro chips that can store information over the pet. In addition, convenient services like information on vaccines, legal advice and funeral assistance can also be provided according to the limits of each plan.

Going to slide nine, we would like to say that, in April, we opened the second BIT, B2W Innovation and Technology, located in the City of São Paulo in Vila Olímpia District. The new BIT is to promote continued innovation, creativity, interactivity, exchange of knowledge and technological developments. The idea is to gather a technology team based in São Paulo, and this team will be completely in line with the company's strategic pillars, that is attract, foster and develop the best digital talent in Latin America.

Going to slide 10, we highlight B2W's digital position as the best service on the web in Brazil. After winning the main service awards in 2013, B2W continues to evolve in the main service indicators. The main brands of B2W, Americanas.com, Submarino and Shoptime have the RA 1000 seal that was created to award companies that have excellent service rates. Companies that received this seal are showing their consumers they have a

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commitment to it after sales, increasing the trust of consumers with the brands, service and products.

Going to slide 11, we would like to remind you of the marketplace operation launch in Submarino in the end of 2013. The initiatives are getting aligned (11:30) with the strategy of offering a purchase experience that's always better, and integrate offers from different stores, expanding site assortment and enabling acquisition of several products in a single transaction, all that in a safe effective technological platform. Submarino marketplace already yields the gains of joint works with some recently acquired companies such as Uniconsult and Ideais.

Going to slide 12, we would like to say that the game is already on, on B2W Digital. B2W is responsible for the World Cup official virtual store. In addition, our three main brands have already put on their green and yellow colors. Americanas.com is with a campaign called The Fans, where customers can find thousands of items to support our squad. Submarino brought Zagallo, a former coach, and his superstition with the number 13 in a campaign called New TV Has 13 Letters. And Shoptime is with a campaign, Let's All Play Together. So, the whole company is motivated, prepared to cater to all the needs of our clients, sell a lot and support Brazil.

Going to slide 13, we reiterate B2W's investment plan and strategy. 2014 will be, for the company, the second stage in its three-year investment plan, whereas we will invest more than R\$1 billion in technology, innovation and logistics. The first year was successfully completed. We are starting the second stage with the certainty that we still have a lot to do to reach the objective of being closer to our clients for the best purchase experience, service and delivery.

Finally, on slide 14, we reinforce our vision of being the best and most admired digital company in Latin America. Thus, we would like to thank the dedication of our associates that once again made a difference and are part of the best and most successful digital team in Latin America. We also thank our suppliers for their partnership, our shareholders for their trust and our customers for being always with us.

These were the main comments relative our performance in the first quarter 2013 (sic) [2014] (14:09). I would like to open for Q&A, so that we can answer any of your questions. For all to have equal opportunities of participating, please be brief in your comments. Thank you very much.

Q&A

Operator

Ladies and gentlemen, let me start now our Q&A session. In order to provide for enough time for everybody to participate, we ask that you be brief in your comments. Our first question comes from Fabio Monteiro, BTG Pactual.

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Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon. My question regards the working capital. I'd like to know how much space you see for an improvement in the receivables. Indirectly, I'm trying to get at whether Boleto or the payment slips can increase the sales. And also, in terms of suppliers, if there is some space also for that. So, I'm trying to understand if, after seven quarters, seven consecutive quarters with improved cash conversion cycles, whether you see there is still a lot to do, a lot to come or if at this moment things are going to stabilize a bit. Thank you.

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

Good afternoon, Fabio. Thank you for attending. You're right. Actually, we've been improving consistently and consecutively in the last seven quarters regarding working capital. We always see space for improvement with all the variables regarding working capital, be it inventories, suppliers or even receivables. An interesting aspect regarding this topic is the dynamics of the payment slip that we call Boleto, which for us is an extremely important tool.

So, what time (16:37) we learned to deal with (16:40), and we are ever more assertive in granting discounts. Our company has different payment possibilities in order to better reach the needs of the customers - meet the needs of the customers. So, we've been evolving in terms of working capital, especially regarding the receivables item. And we're investing less and less in the dynamics of discounts and we're growing our sales. So, this is very positive.

As to the other two variables, of course, there is always room for growth. In terms of inventory, we are opening up new DCs, distribution centers, so there is a greater pressure in this variable. The company is growing a lot, and if you want to grow, you need inventories in-house. And after all, there is this natural relationship with suppliers; you sell more, you buy more. So, we have very good relationship with all suppliers, which ends up impacting this variable, which is one of the components of the working capital. So in short, we do see some room for improvement in terms of working capital.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Okay, terrific. It's clear. Another question about marketplace, could you say a few words - I think you started with a few partnerships, but now you have dozens of them. So what's your strategy? What do you see in the mid-range? What could this represent? What would be the share of this in your results? Do you aim at a specific number of partnerships? I would like to have some color on your strategy regarding marketplace.

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

Thank you for your second question. Yeah. For us, marketplace is a very important initiative, very relevant. This was launched by the end of last year, and our expectation this year is to keep on investing strongly in this front, which will contribute very much to the company business we've been evolving and the number of partners. There are many people who still want to operate in our platform. Submarino is our platform to launch novelties and for innovation. Submarino is a brand with lots of credibility with very

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qualified traffic. So, people who do go into the site, into the website, willing to buy in a very good technological platform that is extremely simple for vendors to use. And we can provide a number of services and support as long as they are plugged into our technological system.

And of course, the customer service pillar, which is very important, very dear to us, because we are really leading in terms of customer service. We are the leaders in many different rankings. And this, at the end of the day, is very significant to attract new sellers, and this provides for an ever improved growth in marketplace. We have excellent practices (20:52) all over the world. It is an operation that contributes a lot to our gross margin. So, I repeat, we are going to invest heavily in this initiative. We want it to grow a lot, and in the mid and long ranges, we expect it to be very substantial in contributing to the profitability of the company as a whole.

Q - Fabio Monteiro {BIO 3711690 <GO>}

To wrap up, I would like to know about these - now that CADE has approved the capital increase, what do you expect in terms of timeline? Is it another 30 days for the capital increase I mean?

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

Well, to update you on this topic, well, we announced the operation on January 24, after the disclosure.

Q - Fabio Monteiro {BIO 3711690 <GO>}

(21:53).

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

Actually, the approval occurred on April 30, and the next steps are very simple ones. We've got 15 days after CADE's approval to call the general assembly, the extraordinary meeting with our shareholders, and then we have another 15 days to hold the meeting. So, we're talking 30 days between CADE's approval and the general meeting, the extraordinary general meeting, which should occur around the beginning of June. After the general meeting takes place and the operation is approved, we have to wait for another 30 days, a time when the current shareholders can exert their preference rights, like the first version (22:49), and then the funds start flowing into the company. So, I'd say that we're very close to the end and everything is running smoothly.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you very much.

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

Thank you.

Operator

Joseph Giordano from JPMorgan.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

This is Andrea Teixeira actually. Congratulations for the results posted. My question is about the margins. The competitive environment is a little bit tougher. So in spite of growing more in the top line, there is the issue with the mix. And perhaps due to that, the image (23:45) did not have such an impact in the first quarter.

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

Good afternoon, Andrea. Thank you for attending. Your question is excellent. As you see, the gross revenue has grown 30% during the quarter and the net one 33%. This effect has to do with the logistic grid of the company, which generates a different line between taxes and CMV, especially when you're comparing different timeframes. At the end of the day, the gross profit is not changed. But when you look at the gross margin, which is calculated on the net revenue, there is an impact. So, the best way to analyze the gross margin would be to check gross revenue over gross revenue, which does not suffer any impact.

And if you do that, you'd see an evolution of 0.3 percentage points in the gross margin, which is very good. It means that sales grew steadily and we still improved our gross margin. So, the mix is fine. B2W currently operates with more than 48 different categories of products, which is indeed a very good competitive advantage. We have a lot of competition in terms of appliances and electronic products. And so, we can face the competition there. And a number of other categories, which provide better margins, will give us something around 24%, something that keeps on improving quarter-after-quarter.

Now, we do have some initiatives being deployed that will only prune profitability and gross margin. One of them is the fashion category, which was launched in Submarino and now was launched also at Americanas.com. We also have our own brands we operate in Shoptime, and there we have four brands of our own in the three new different sites. And marketplace itself, which is a good margin operation. So, we're quite happy with sales growth that we have been posting and the evolution in terms of gross margin. Looking ahead, all these initiatives tend to contribute a lot.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

Okay. Thank you, Fabio. Now, could you say a few words about conversion and cost of customer acquisition? There is a greater competition in e-commerce. We see that. Can you talk about these two trends?

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

We have a number of initiatives to increase conversions. The new sites corroborate that. We have sites that are more intuitive, more friendly with more powerful search engines, dynamics of recommendations and management suggestions (27:22). So, we have a number of initiatives, which tend to improve the conversion rates. In terms of cost of acquisitions, here we're talking about a very dynamic movement. So, looking at our expenditures regarding this item (27:46) growing less than in sales.

In this quarter, for example, as you can see, our EBITDA improved more than sales, which suggest operating leverage. So, when we talk about this dynamic, we see that we have improved in many fronts. We're growing sales at lower costs, so corroborating our thesis that this is a scale business. We still suffer a lot of pressure in terms of expenditures. But in terms of sales, we see a dilution of expenditures. And this has been happening for the last three quarters, because you'd see that EBITDA is growing at higher levels than sales.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

Thank you.

Operator

Our next question comes from Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 16614174 <GO>}

Good afternoon, Fabio. Good afternoon, everybody. Thanks for the call. Let's go back to the discussion that we had when you said in the fourth quarter about CapEx. You talked about R\$165 million CapEx. What's your expectation for 2014? I just wanted to fit this into your plan for more than R\$1 billion for the next three years (29:30). This is the first question.

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

Thank you for attending, Gustavo. Your question is an excellent one. Our investment plan announced by the end of 2012, we announced at least R\$1 billion in CapEx. Actually, the company has been investing very strongly to come closer – to be closer to the customers to offer better purchasing experiences. And the outcome that we've seen, according to all these indicators, in our top line has been very positive, but then growing in the last quarters, as you know.

Looking more specifically to 2014, the first quarter of 2014 vis-à-vis the first quarter of 2013, we see that our CapEx is in line with net revenue. But the most important aspect when you talk about investment dynamics is that this is the right moment to do this. B2W is a digital company. It is investment-intensive, especially in terms of technological investments. It is a seven year-old company, a very young company in an industry that is still in its initial stages.

Looking forward, which is the nicest aspect of this business, we see many, many possibilities and the growth rates for this market are very high. If you compare Brazil and Latin America to other regions in the world, the best place to be is right here. And really as pioneers in this industry, we are cognizant of the challenges. We are number one in terms of size, and we do intend to consolidate this position. We don't want to be only the largest. We want to be the best. This requires many investments, and we think we've been doing a very good job in this sense.

Q - Gustavo Oliveira {BIO 16614174 <GO>}

So, if I work with CapEx as a percentage of net revenue at the same level that you had last year, this is more or less what I should expect for 2014 or do you see CapEx vis-à-vis net revenue falling?

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

I cannot give you like a guidance right away, but I think you're on the right path.

Q - Gustavo Oliveira {BIO 16614174 <GO>}

So, I should think more or less in terms of what happened last year in terms of proportion. Second question about working capital and inventories, your inventories are growing sequentially, quarter-after-quarter. It seems to be a very high number for me. So I think there is a lot of room for improvement. When do you think you're going to stabilize your inventories? I know that there are many distribution centers that are going to enter into the maturity phase now. Do you expect to see a drop in inventory levels for the next months or do you think it is going to take a while and the inventory should still grow a bit?

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

A very good question, Gustavo. This is a very relevant aspect, because indeed, we have been evolving in terms of working capital. And within working capital, there is one variable which has been growing, therefore, leveraging (33:31) our figure as a whole. So, we see a great opportunity there. Now, if you start to think why the inventories have been growing, well, first of all, we started - we inaugurated three distribution centers last year. We had four distribution centers. Now, we have seven. And in line with our investment plan, we intend to inaugurate another seven distribution centers by the end of 2015.

This does put some pressure on the inventories at the beginning. But at the end of the day, inventories are a good thing, because if you have inventories, you're ready, you're prepared to face the great opportunities that come up sales-wise. We need to prepare the company for growth which is still to come, and inventories are a very important component. So we've been preparing the company technologically and logistically. So yes, in trying to answer your question, our inventories are growing today, but we think that we have very good opportunities for the future to work with this variable.

Q - Gustavo Oliveira {BIO 16614174 <GO>}

One last question regarding sales. The first quarter was very strong with a very strong base. Do you see an impact from the World Cup from the campaigns in TV and all, or not? Or do you think that the effect hasn't started yet in your base? How do you see - could you give us some color on the category growth? What do you see the effect after the World Cup will be like? Because maybe TVs won't sell as much, but maybe other categories are going to sell and offset this drop in TV sales. So I would like to know what the dynamics are going to be like and what your targets are for that category.

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

Thank you for your question, Gustavo. We did grow 30% on a very strong base, because we have grown 35% before. So, it is a great challenge, but we enjoy challenges. The

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World Cup event is extremely relevant for us, but it will start now. So, looking at the first quarter growth, you don't see a lot of impact from the World Cup in the first quarter. It should start now, as I said, and we have great expectations regarding the World Cup.

The electronic appliances, especially TVs and smart TVs are going to grow a lot. But other categories also will grow like telephones, specialty smartphones, audio as a whole, home theater, appliances, the white lines, games, many games associated to soccer and the World Cup, photography and video cameras, EED (37:14), which is also an important category. We will sell many coolers.

So as I said in my initial speech, in order to grow and to root for our team, for Brazil, we still have some room to grow. Another important aspect is that we are operating FIFA's official store, and this was some accomplishment. FIFA chose us because of our capacity to deliver all over Brazil on a timely basis and efficiently. And another operation brought in-house that's very important also is AmBev's operation, also very much related to the World Cup. So I'd say we're total ready and we're going to do fine during this event.

Q - Gustavo Oliveira {BIO 16614174 <GO>}

And after the World Cup, do you think other categories will grow and offset the drop - to keep a 30% growth, because the category of TVs and electronic appliances will drop naturally.

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

Well, after the World Cup, it will be life as usual. We've been growing for the last seven quarters consecutively without the World Cup. So of course, the World Cup will add a lot of sales. But after that, it's going to be back to business, and balancing the categories we have in-house, trying to improve evermore our initiatives and so on.

Q - Gustavo Oliveira {BIO 16614174 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Hello, good afternoon. I have two questions. The first question is the opening of your BIT center in São Paulo. What are the gaps or bottlenecks in human resources that you're trying to fill with this center? Is the idea here to have an innovation center or also to address a specific project? So if you could elaborate on that, give me also a bit more detail on size of the center (40:01) that you're thinking about. I do not think it is a large amount in your expenses line, but just for me to understand how we should incorporate this idea in our assumptions and in the specific understanding of the company. The second question is with regards to - let me - let's hold and you give me the answer of this first question. And then, I'll ask my second one. Thank you.

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

Hi Irma, good afternoon, and thanks for asking your question. We are very proud of opening our second BIT. I would like just to remind you that in August last year, we opened our first BIT in the port area of Rio de Janeiro. This was based on the best technology pause (41:02) in the Silicon Valley, and we're very proud of this initiative. And thus, we are opening a second one in São Paulo. One of the recently acquired companies, Uniconsult, was based in São Paulo. So it makes sense to have a base in São Paulo. Remember that our operation is in São Paulo. And São Paulo is the largest city in Brazil. So it is an extremely important and relevant center for us to have part of our business established.

BIT, the main characteristic is to promote continuous innovation. We gather our entire technology team in a single place, promoting creativity, exchange of knowledge, and particularly technological developments. And for us, people are an extremely relevant asset. We do have today the largest and best digital team in Latin America. Looking forward, we have to attract and encourage and develop our people more and more. And there is no better way to do that than our center. And I really don't think you should think of that as an expense, quite the opposite. It is an investment for the company. We are a digital company, and it makes sense for us to have this kind of room to gather our technology team.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay, thank you. My second question is, that we have been following an evolution of your numbers, sales, gross margin, dilution of companies for a series of quarters in a row, and also a much more well-behaved position of your expenses. But from now on, you have interest rates, you have new capital coming in. What do you think would be the curve (43:26) for you to get to your break-even? Do you think it would be this year, 2015? What do think the (43:36) will be like in the future? Thank you very much.

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

Well, once again, Irma, thanks for your question. I think what you're saying is extremely important. The company is evolving in almost all lines, top line, gross margin, evolution of EBITDA margin. Financial results this year were not as high as our net sales, which is relatively good. We have 54% in comparable numbers and financial results 31%, and this is based on the capital structures that we adopted for the company.

And that now, we are going to have a big suitability based on the increase of capital that is to happen. And this will give extra breadth for us. Today, when you get our EBITDA cash generation, it practically does not cover for financial results. So adjusting the dynamics of capital structure, we are going to have more breadth. That is we are going to be able to save the benefits of our cash generation better to continue to invest in the business.

We know exactly where to invest, and with this change, we are going to have more flexibility, I believe, and more breadth. As for breakeven, I think the most important point here is that we have been building the company, not in short periods here, not for the next quarter, but rather thinking about mid and long terms. So, we are going to continue

investing strongly in the business and the breakeven is going to be a natural consequence of everything that we are doing, and it will come eventually.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay. But in the short-term or in the very short-term, perhaps it is not in the horizon?

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

Indeed. We are not going to see it in the short-term.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay, thank you.

Operator

Our next question comes from Alexandre Amson from Credit Suisse.

Q - Alexandre Amson {BIO 4119036 <GO>}

Good morning. I just would like to follow on the CapEx question. Could you give us a bit more color on the R\$165 million that you had this quarter, where you the spent the amount? Could you then have a breakdown into intangibles and fixed assets, please?

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

Hi Alexandre, thanks for your participation. Well, basically our CapEx has two important lines, the logistics and technology. And we can basically consider a 50-50 investment in each one of these lines.

Q - Alexandre Amson {BIO 4119036 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Bruno Taveira from Santander.

Q - Bruno Soares Taveira {BIO 17666955 <GO>}

Hello, good afternoon, everyone. I would just like to have a follow-up on the working capital question that was asked in the beginning of the call. You've said that the supplier line and your improvement is because you're getting bigger and that is more relevant for your suppliers. Anything else that is relevant for this line, for instance, an improvement of your mix? Correct me, if I'm wrong. But five years ago, 90% of your sales were in electronics. Now, it's about 50% and there has been continuous improvement of mix and working capital. Is there a relation between them or is the relevance really based on your growth?

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

Hi Bruno, thanks for your question. You're right. Indeed, we have been evolving in our suppliers, and there is also a mix component there that will help us in this line. And as we mentioned in the call, it helps us to evolve our gross margin. But we have to pay attention to all these three variables, even receivables, because remember that the Boleto, the payment slip, is having a higher share in sales. It will be an extremely important component for the evolution of working capital in the past and next quarters.

Q - Bruno Soares Taveira {BIO 17666955 <GO>}

Okay, thank you very much.

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

Okay, thank you.

Operator

Our next question comes from Tobias Stingelin from Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Well, the question is distribution expenses grew just by 10% and top line 33%. Could you elaborate a bit on that for us to try to understand the efforts that you are engaged in and the changes you are making in the company?

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

Hi Tobias, thanks for your participation. You're right. Our distribution expenses grew 10.3% against the previous quarter. Now, it's important to see these expenses associated to other expenses, such as occupation expenses. So when we open new distribution centers, what happens? We - it starts to work with rental expenses. But as a counterpart, we are located closer to the client, so we can offer faster, more effective services, and we also decrease distribution expenses; that is, it costs us less to distribute to our clients when we are closer. So, it is very important to think of these expenses associated to all of these aspects. Anyhow, when you do the math, we grow less, that is we have been doing very good work with dilution of expenses.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So, basically freight is included in distribution?

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

Yes.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. And just one more question, a follow-up on Alexandre's question about CapEx. So, CapEx of R\$166 million in the first quarter, intangible was almost 80% of your CapEx. You

said along the years 50-50, but why intangibles was 80%? Is it software? Is it less people? What do you consider intangibles, just for us to understand this 80%?

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

Hi, Tobias. Our technological platform is constantly evolving. What is in this line of intangibles is precisely that. And when I said that you can consider 50-50 logistics and technology, in fact, inside logistics, we also have a series of developments that are related to logistics systems, and (51:49) intangibles grow more than successes.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. And this is the trend. So you're going to have 50-50 along the year, because the way we see it is that you have been investing so much in technology that this at one point will decrease? But from what I understood, you're still going to continue investing for a longer period.

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

Yes. Tobias, remember, we are a technology company. We are very technology-intensive. And remember, the company is seven years old. It's a very, very new company. So, the best we can do for the company, for our customers and for our investors is this, what we have been doing, continue investing in our logistics technological platform to capture all opportunities. And we have been succeeding in that, and this is very important. For us to grow seven quarters in a row above the market, we have to be consistent, and we are very consistent in our strategy and in the investments that we are making. So we are very confident on the path we chose to follow.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, thank you very much.

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

Thank you.

Operator

We are now closing the Q&A session. I'm going to turn the call over to Mr. Abrate for his final (53:18).

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

I thank you all for attending our conference call, and I would like to invite you all to learn more about our pets health care, today Americanas.com has a book day, Submarino IT offers and also Shoptime. Also, our tickets that can be purchased in a very safe convenient manner. Also our Investors Relations teams are always here for you to clarify your questions. Thank you very much, and have an excellent afternoon.

Operator

B2W's conference call is now closed. Thank you for joining us, and have an excellent afternoon.

FINAL

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