FINAL

Bloomberg Transcript

Q2 2014 Earnings Call

Company Participants

- Fabricio Bittar Garcia, Chief Commercial Officer
- Frederico Trajano Inacio, Chief Operations Officer
- Marcelo Jose Ferreira e Silva, Chief Executive Officer
- Roberto Bellissimo Rodrigues, Chief Financial Officer and Investor Relations Officer

Other Participants

- Fabio Monteiro, Analyst
- Irma Sgarz, Analyst
- Luiz Cesta, Analyst
- Marcel Moraes, Analyst
- Victor Falzoni, Analyst

Presentation

Operator

Good morning, and thank you for waiting. Welcome to Magazine Luiza's Conference Call to discuss the results of the second quarter of 2014. For your information, this event is being recorded and all participants will be on listen-only mode during the company's presentation. After the presentation, we will initiate the Q&A session when further instructions will be provided. (Operator Instructions) The replay of this event will be available after it is concluded for a period of one week.

We would like to stress that any statement made during this call related to the business outlook of Magazine Luiza, projections, financial and operating goals are based on beliefs and assumptions from the management of the company, as well as information currently available in the market.

Future considerations are no guarantee of performance because they involve risks, uncertainties and assumptions and therefore depend on circumstances that may or may not occur. Investors must understand that general economic conditions, conditions of the industry and other operating factors may affect the future performance of Magazine Luiza and may lead to results that differ completely from those expressed in such future considerations.

To start this conference call, I would like to give the floor to Mr. Marcelo Silva, CEO of the company for his presentation. Marcelo Silva, you may have the floor.

Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Good morning, everyone, and thank you very much for participating in this conference call on the results related to the second quarter of 2014 and also the first half of 2014. I would like to begin by referring to the main highlights of Q2. The number one highlight is the net revenue growth of 28.5% in Q2, which repeats the same performance we experienced in the first quarter of 2014. And this growth comes from same-store sales, growth of 24.5%. Also e-commerce increased by 44.1% and physical store grew more than 21.3%.

I would also like to mention the dilution of our expenses by 160 basis points in Q2, much lower than sales evolution and 2 percentage points in the whole half of the year as a whole. This already considers additional efforts that we did, because we were one of the sponsors of the World Cup, a global television. With that we were able to grow EBITDA by 40.3% year-on-year and 133 million in the last quarter with an expansion of 50 basis points. So now EBITDA margin is 5.7 as compared to 5.2 year-on-year.

Luizacred is also another highlight. We increased equity income by 79.9% and that corresponds to R$18.1 million, the equivalents to 30% return on equity. So Luizacred is reinstating its growth in the past few months. All in all, our net income increased by 130.6% or R$26.6 million in Q2 with a net margin of 1.1.

I would also like to highlight the fact that in the second quarter of 2013, we had an effect of 43 million net of taxes referring to the sale of 70% of one of the biggest DCs of the company in Louveira, Sao Paulo. So this figure already considers the results of the second quarter of 2013 without that extraordinary gain that we had.

Now, I would like to give the floor to Roberto Bellissimo to highlight the main figures for the company, and at the end I will come back to comment on our expectations for the second half of the year and the results for 2014.

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Good morning, everyone. On page three, we have sales performance, gross revenue consolidated in the first half of the year. Our growth was about 26%, 5.5 million in sales. This is already 1.2 billion higher than experienced in the first half of last year.

We also show same-store sales growth, as Marcelo already mentioned, based on last year's base which was approximately 9%, around 9%, which is a significant base, so it's a very significant growth base on some considerable figures.

And I also like to highlight the Internet growth. It's been growing for two months around 44%. And the first -- and the second quarter's Internet sales already accounted for 16% of total sales of the company, which is higher than last year when this number was 14%, which just reinstates our strategy to grow e-commerce and our strategy to pursue multi-channels, so we are a company in total sync with e-commerce. So we are in sync, e-commerce and physical stores.

On page four, we show gross profit figures. The growth in gross profits in the second quarter was 23%, which is a significant growth as well. The accounting gross margin was down 1.1 or 110 basis points. So basically that was due to the mix, because in the quarter we sold a lot of television sets partially because of the World Cup.

So within our expectations, we would have an effect of the mix. And the other effect comes from increases in tax replacement in that second quarter, because these two categories alone, they impact tax replacement especially over total sales -- if we compare it with other categories which lost their stake in this quarter. So that margin increased and that affected about 50 to 60 basis points.

Now, if we compare gross profit over gross revenue which eliminates the distortion, which is only an accounting distortion whether taxes would go under the tax line or cost line, which is -- the gross margin was down by just 50 basis points and this was mainly due to the mix of the quarter, which was a bit unusual because of the World Cup.

So, next I would like to talk about operating expenses, a dilution of 150 basis points, especially in that line of sales expenses. And equity income had a very important point here, which was Luizacred, which is very consistent because in the past two years all of the quarters have been very consistent in terms of 30% return on equity. So it's a very sustainable number, equity income has been very good.

Next page, we'll show you EBITDA figures. In that quarter, the margin was 5.7; in the half year, 5.5. And the main drivers that lodged to EBITDA increase was expense dilution and also equity income that offsetted all of the effects of tax replacement and gross margin. So our EBITDA was able to grow approximately 40% [ph] during that quarter.

Next slide. We talk about our financial results. Net financial expenses increased by 39%, very much in keeping with CDI rate which grew a bit slightly above 40% during that period, another highlight. I mean anticipations grew more than average, because they suffer the impact from CDI and increase in sales, because sales were up by almost 38% financial expenses without considering credit card anticipations.

Our very next table, year-on-year, despite increases in CDI rate which indicates improvements in the financial results, as a whole.

And then I would like to speak a little bit about working capital, but in this quarter we had increases in our working capital requirements. This increase was not due to inventory, but on the contrary we improve inventory turnover. And in June the situation was quite normal in contrary to what was published, because some article said that maybe companies would be -- with their inventory levels very high.

I mean, we purchased what we wanted to purchase and we sold whatever we planned to sell. And our strategy impacted the suppliers account and that was a very acceptable strategy, because we wanted to realize sales during the World Cup. And what we did was to anticipate purchases that usually occur in May and June, but we anticipated these purchases during April and May. And for all payments, they were to be done in the third quarter and were done on the second quarter which brought down our receivables to from 1.5 billion in March to 1.2 billion in June, which indicate that payment in the third quarter will be much lower and this will favor our operating cash flow from now on.

And the trend in the second quarter is to reduce our working capital requirement, because this is -- also and what happened in this industry considering the seasonality of sales.

We also have experienced a reduction in leverage from 2.1 times EBITDA to 2 times EBITDA. Debt variation is directly related to variations in working capital and as working capital sales goes back to normal levels, the debt profile should also follow soon. I would just like to say that EBITDA in the last 12 months went from 300 million a year ago to 500 million today and this represents a 60% growth and what helped -- this also helped to reduce leverage as a whole. And this trend should also continue further down the road.

The last highlights for the quarter on this page was the extension of the debt profile. Our first corporate rating was issued by Standard & Poor's and also I must refer to the reduction of leverage as another highlight.

And then on page seven, we talk about net income. In this quarter, we have 47 million and then half of the year 27 million. This is the equivalent of returns, ROE of 15% on an annual basis.

And then on page eight, we talk about Luizacred. The Luizacred is going consistently. We experienced a two digit growth in gross billings. The highlight here is the Magazine Luiza Card, which posted increases of 34% and this is a very good indicator showing that our clients are more active and they are buying more in Magazine Luiza, which is a good sign of loyalty.

July credit to consumer figures have decreased. And this is also part of our very conservative policy in credit approvals and with that overdue payments portfolio is very stable with the same outlook. And with that Luizacred was able to grow revenue. The credit card has generated consistent revenues. We were able to dilute provision.

The provisions over total sales came down from 4.2% to 3.5%. Provision for bad debt decreased and that was in keeping with our very conservative credit approach. We were able to increase our profits by 88% and returns again were capped around 13%.

And now, I will turn the floor back to Marcelo to talk about the outlook.

Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Roberto, thank you. So now I will refer to the outlook for 2014, particularly the second half of the year where we expect to continue growing double digits, slightly lower than in the first half of the year but it's always good to mention that comparing the first half of 2014 and the first was better than the last half of 2013. But now again, in the last half of 2013 we had a very robust position, but we are very confident that we will continue to grow double digits, but at slightly lower than in the first half of the year.

Bau and Maia are the two chain of stores that we integrated and they continue to post good productivity, they're growing higher than the company's average. And e-commerce is expected to grow between 25% to 30% in the second half of this year.

In terms of the margin, we hope to resume the levels of 28% because the category mix will go back to normal levels, we will no longer have the World Cup effect as it was mentioned by Berto. We continue to pursue our projects to control pricing and the inventory. And also we will certainly continue to improve the sales mix in the second half of the year.

We will continue to dilute expenses, we've been increasing our service revenues, gradually Luizacred, we estimated that for the second half of the year, the outlook for the Luizacred is very positive in terms of results. And with all of that, we should also improve our EBITDA margins in the second half of 2014.

Going back to margins that we had in 2013, we had 5.2 now its 5.7 and we hope to continually improving the EBITDA margins and also the net income of the company. I would like to conclude by revisiting the history of the company and everything that we've been saying every quarter. I mean Brazil grew 7.5% in 2010. 2010, 2011, for two years we've focused on the integration of all of the networks that we acquired and we were very successful.

By the end of 2012, we had all 250 stores totally integrated in the company in all aspects. And in 2013 we began to see positive results. And due to our efficiency and the maturity level of the stores and everything else that we've been talking about to analysts and investors.

Therefore, I mean results for 2013 were much higher than as posted for 2012 and 2011. So we hope to conclude 2014 with -- this was even better than those that we had in 2013 even after the sale of our DC and the performance of 2014 will be much better and higher than that of 2013. The numbers are recurring, numbers with no extraordinary expenses or anything else.

So we are very confident that with our positive outlook the company is growing its results, it growing sales, EBITDA margins are good and also net income. Therefore, we are very confident in our path of presenting positive and consistent results. So, we has been saying that every single quarter and this has been a reality since 2013 in a very consistent fashion.

I would like to thank you very much for being so patient as to listen to us. And now we will open the floor for questions. We have all of the officers of the company; Frederico, the COO; Isabel, our Manager of Management and Control; Bittar; Marcelo Ferreira from Luizacred. I mean all of the officers of the company are here at your disposal to answer all of the questions that you may have. Thank you very much. So now, let's go to our Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) Mr. Fabio Monteiro from BTG Pactual have the question.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good morning. I would just like to learn more about your top line growth which was quite strong. You've already talked a little bit about it and your release -- you also talked about the performance of sales of TVs and smartphones and we know that that will be -- helped your final results or your top line growth. But when you look at the market and even by talking to some other companies and also the average of your performance, was detached from the macroeconomic landscape.

But I just want to understand something; you have a break on same-store sales involving matured stores or maybe three or four years, so maybe you have a breakdown for region that will impact the growth line. I just want to have an idea about the southeast and south, about your growth level for same-store sales?

Hence referring to July, regardless of just a particular number you already said that you will have a lower double-digit growth in the second half of the year. But can you tell me whether you felt any important decrease in growth when you compare the first half and the second half of July?

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Fabio, thank you for being the first one to ask a question. But you always come with interesting questions. We do not refer to our breakdown figures to outsiders, but we can say 42% growth of e-commerce. The Northeast grew more than the company's average. I mean referring to the old Maia stores, the Bau stores are growing more than the company average. And this is related to the consolidation and maturity of the stores they were acquired in 2010 and 2011.

First, we started with the integration in 2012 and now the stores -- 250 stores are becoming more mature and already consolidated. So there are a lot of peculiarities related to growth. But there are other 15% top line growth refers to also other things. We are talking about purchasing planning and we believe that we did that well and as a consequence sales were materialized. Our sales plan was materialized because of other purchases, our participation in the World Cup was very intense, we covered the entire country through media net. Many municipalities in the country where we're not present posted sales.

And our team is very well motivated and truth must be said that the team is very much in sync, they communicate all the time. So our online and offline base is in-tune. And this was also translated into sales. This happened in our first quarter and in the second quarter. We saw that lot of television sets and also smartphones and these two items push things upwards, because of the World Cup. So these were probably the main factors. We could also talk more about it later on, but these are the two most important aspects.

Now, July -- we keep comparing July of this and July before. We had a very good July. We have already celebrated our target and we grew in average of two digits, which was very important for us, it was important to have a very good start in this second half of the year. We just finalized the figures for July last night. So that was a very positive thing.

We are confident on the second half of the year, because we want to continue to grow double digits, but as we approach the end of the year with the growth of that you've seen in the previous quarters and also in the third and fourth quarters, I mean the comparison base, it's difficult, I know that, but nonetheless our expectation is that or we believe that we will continue to grow two digits, maybe not very high but we will continue to grow two digits. Federico, would you like to add anything? Did I answer your question?

Q - Fabio Monteiro {BIO 3711690 <GO>}

Yes, yes. I just want to be sure that I understood when you talked about July. So when you talked about average two digits, it's between 10 to 20?

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Above 20 would be too high, low is 10. So, above 20 would be high, 10 is low, but two digits -- I mean 10 is low but I'm saying two digits. So on average -- I mean, get an average there, I mean we do not speak about monthly figures, but you're very close. I mean your reading is quite right. I don't think 10 is low, let me disagree, but we are talking about two digits, I mean, it's high. But as two digits, it's the lowest two digits you could have, right. Yeah, that's what I mean.

Q - Fabio Monteiro {BIO 3711690 <GO>}

So the last follow-up. Could you say that the maturity curve of the stores, it's more accelerated than the historical figures or you think that TV sales and tax exemption for smartphone and tablet were elements that helped the figures in our model, maybe should we consider a faster store maturity when compared to normal levels?

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Well, in the Northeast in 2010, '11, '12, '13, three to four years is the average maturity time. Magazine has already acquired 13 networks, even a new store has bearing maturity levels, in a shopping mall sometimes it's different, but it bear. So three to four years would be a good average in terms of store maturity allowing the store to go on cruise mode. And then it will just maintain its regular growth within the averages of the company.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Okay. Thank you, Marcelo, very much.

Operator

Mr. Marcel Moraes from Deutsche Bank has the next question.

Q - Marcel Moraes {BIO 20057766 <GO>}

Good morning, and congratulations for your results. Marcelo or Roberto, I would like to focus on the Luizacred. And looking at default levels, have you experienced any or have you seen any changes in behavior, because the second quarter had a few changes. Did you see any changes in default levels or do you -- are you still very comfortable in what concerns credit concession?

And what is your provisioning? Where do you think that the coverage ratio of the company will become more stable?

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Good morning, Marcelo. Speaking about Luizacred, what I can say is that, provision, the provision level is just normal. It's been around 3.4, 3.5 of that provision for the losses in our portfolio. We've been noticing some stability, some indicators show that there hasn't been any significant change or deterioration or nothing changed in our view for Luizacred as a whole. The last three quarters were very similar and very consistent.

Therefore, we believe -- I mean we viewed the budget for the end of the year and we feel comfortable with the KPI's that we are presenting. Because we believe that they are sustainable and they should evolve positively until the end of the year and also into the next year.

I would just like to mention one thing. You noticed that we reduced the stake of CDC and increased credit card. Credit card is not so influential as you're excited to consumer DCC and this is very positive. Our credit card base has been stable and we've experienced a growth in the use of credit cards and credit card revenues and all of that is positive to Luizacred, because it shows their customers are more active, they are expanding more, the base of credit card is becoming more mature and with the matured credit card base means that we will have more to gain. It will be more profitable. I think these are the main KPIs, the main indicators I can refer to when concerns short-term outlook for Luizacred.

Q - Marcel Moraes {BIO 20057766 <GO>}

And Roberto, can you get me an idea, I mean with that looking at delinquency levels, but looking at operating indicators of Luizacred, I think that you already have few projects that are allowing for improvements in the profitable margins of the Luizacred. Is there still any further room for continuous improvement of this result?

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Well, we start with revenues. The revenues are growing. Funding cost has increased, but Luizacred is offsetting the funding increase with a lower need for provisions and lower operating expenses. There are many projects underway, many improvements in the credit card models, credit concession models, collection models and processes. And all in all, the delinquency trend now is stable. And I think that the numbers will gradually improve and it has improved when you compare the figures year-on-year.

And then when it comes to operating expenses, we've been doing a lot to maintain operating expenses more diluted. We want to dilute Luizacred's operating expenses. And this started off last year with a project that we developed and optimization process and also productivity increase. That project started last year and it's now in its second phase and it's moving along. And that involves a lot of efforts to increase the efficiency of the operation.

And certainly we can make further improvements. But if you compare the first quarter in operating expenses and compare that to the figures of the year before, there has been a significant improvement. So Luizacred was also able to dilute operating expenses.

Q - Marcel Moraes {BIO 20057766 <GO>}

Perfect. Thank you. Thank you, Roberto and Marcelo.

Operator

Irma Sgarz from Goldman Sachs has the next question.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. In fact, I would like to go back to Marcelo's point, when he talked about coverage ratio and the level of provisions that goes through Luizacred. I know that the portfolio grew by 8% and the delinquency indicator, after 90 days I think went from 10% to 10.6%. At the same time, you've reduced the provisions in your P&L for 6% year-on-year, so the coverage ratio came down to 122%.

So we've seen this trend in the last quarters and more particularly in the last two quarters. But looking ahead, I think -- and correct me if I'm wrong please, but it seems to me that this is not a very sustainable dynamics given the macro scenario and also considering that delinquency has gone up year-on-year, you may have to grow your provisions, so increase your provisions to -- because of your coverage ratio, because I think coverage ratio, I think, it could go up.

So just as this drop in the coverage ratio had helped the results of Luizacred in the last quarters, this can probably impact your results from now on. So I just want to know how are you going to work out with this dynamics from now on?

A - Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Thank you for your question, Irma. I did not talk about coverage ratio with Marcelo before. So this is a good opportunity to do so. The coverage ratio in the last four or five quarters have been stable around 128% [ph]. If you go back in time, there was a point when it was higher than that, because the DCC portfolio was increasing so then we increase our provisions way back then, because the DCC portfolio, direct credit to consumer was increasing and usually that portfolio is more delinquent when compared to the credit cards.

So in the second quarter, this portfolio DCC is more stable and that's why I say that coverage ratio should go back to normal levels. And that's what happens now, it's around 128% with the coverage ratio. It's not a target of the company per se, it's a calculation.

Provisions are done based on a model of possible losses of the company and we are very conservative and it also takes into account clients credit score, last expectations and et cetera. And there is a confusion in the minds of people sometimes when they compare our coverage ratio to that of the banks, meaning (inaudible) Bradesco. And I think now it's a timely opportunity to talk about it.

Credit portfolio is similar to that of Luizacred, which has lowered terms, et cetera. Our average term is five months, they tend to have a coverage ratio similar to ours. When you look at the coverage ratio of a Bank of 170, 180, it because they give out a lot of loans to companies and large companies, in particular.

In this kind of business you have to have provisions and credit has to be on time until the coverage ratio goes out. So it's much higher, because you have provisions for payments on time, not overdue. That's why the coverage ratio of banks is much higher than that of Luizacred. But the level of 120% of Luizacred is very comfortable. Luizacred has more than 18 million in provisions additional to the minimum required by the Central Bank according to the 2682.

We're very comfortable with our credit level of provisions and also we are very comfortable with our provision level of the last quarters just to sustain the losses in the coming quarters.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you. That is very clear. But looking ahead, this dynamics of having some drop in provisions while the portfolio is growing, maybe this should not continue in the next quarters, provisions should go through Luizacred should be at least stable or it should continue to grow with a slight increase in delinquency level. Now the portfolio is very much stable between DCC and credit card, right?

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Let me just help you understand how we calculate -- this is Marcelo Ferreira here. First of all, Itau makes all the calculations of this direct credit to consumer and how they do it? They take every credit concession and they look at the risk level of that loan and then they associate and amount according to the IFRS model, and then they get all of the amounts to come up with another amount. And the coverage ratio is the total divided by NPL.

So the coverage ratio is not a target of (inaudible) looking at every single loan. So why is it, their provision from loan losses is coming down? As I look at all of the loans, the risk when compared to the year before is lower now. So all loans, our loan policy is more conservative now. So at my portfolio, I have less credit risk when compared to the year before. And that's why you see a reduction in provision for loan losses. But the coverage ratio, if you look at it, it was 116, then 117, 118, in 2013; it was 126 and margin of 122. So it's very much stable, but that's not a target. Certainly, a lower coverage ratio maybe could raise the flag, but around this range it's very comfortable.

So what is this coverage ratio if everyone is paying late? I'm still very comfortable with this provision level. What I'm saying is that, if delinquency goes up, well, then, okay -- then what we are saying is that the quality of the loan portfolio here when compared to that of the market is better. We will go lower than the market, so if we compare our portfolio to previous years, our credit portfolio is much better now. That's it.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay. Thank you.

Operator

Mr. Victor Falzoni from Brasil Plural has the next question.

Q - Victor Falzoni {BIO 18269335 <GO>}

Good morning, and thank you for taking my question. Can we have more visibility about the investments you did in the sponsorship for the World Cup and whether all of that investment have been already posted? And how come you had such a strong reduction in the selling expenses in this, it was not reflected in the G&A. Could you elaborate more on that, please?

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Frederico, you can answer that.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

Good afternoon, Victor. Here is Frederico, Marketing and Sales Officer of the company. We had a fantastic half year in terms of sales. We were able to grow our same-store sales over 20% and sales expenses include many elements and one of them is even the salary of the managers of the stores, the manageable salaries of all of the support cashiers.

So fixed and variable income or salaries of everyone involved, they're logistics expenses with a 20% growth in same-store sales. Even if the marketing expense was relatively stable when compared to the growth of revenue, all of the other expenses I mentioned were diluted. So the rent of the stores was diluted, also expenses with the salaries of the cashiers, managers and regional people and also distribution expenses, all of these expenses were diluted due to the very strong growth in same-store sales and also other structural factors.

One of them being the improvement in our Northeast operation by old stores and all. This helped us to reduce our sales -- selling expenses. And admin expenses, as you see in the release also has the effect of provision for loan losses and we didn't have that in the past.

Q - Victor Falzoni {BIO 18269335 <GO>}

Okay. Thank you.

Operator

Luiz Cesta from Votorantim Corretora has the next question.

Q - Luiz Cesta {BIO 15223262 <GO>}

Good afternoon, and thank you for taking my question. I would like to look at the inventory levels of your retail operations. You're already said that your inventory levels are well adjusted. But can you tell me a little bit about the competition? And with that I mean whether you see a stronger competitive environment, especially -- also because of gains from not very strong competitors or whether you see that in the short run things maybe a bit more complicated?

And my second question is about furniture. How do you see the behavior of the end-user vis-a-vis the category in the second half of the year? This consumer is a bit more conservative only when it comes to the purchases, whether you can anticipate any problems coming from that side of the demand?

A - Fabricio Bittar Garcia {BIO 17269261 <GO>}

Good afternoon, here is Fabricio. In terms of our inventories, as Roberto said, our inventory levels are quite normal and within the plan for the second half. It's hard to talk about -- it's difficult to say anything about the inventory levels of the company, but as we noted from the last month of June, we did not see any price deterioration at the other end and there hasn't been any sale or furniture or white lines or anything like that. So prices are absolutely normal.

In terms of furniture, this is a category that lost some momentum in the first half of the year. In the first half it was only on the side, I think that in the second half of the year we will grow, maybe not at a two-digit level but we hope to grow between 5% to 7%.

So this is the expected growth for this category. We hope it will perform better, because we do not have the effects that we had in the first half. So this is what we believe will happen.

Q - Luiz Cesta {BIO 15223262 <GO>}

Thank you. One more question, if you allow me. Looking at the performance of the stores during the first and second quarters, do you think that you would close some other stores that are underperforming, now that the World Cup season is over? I'm sure that you took advantage of that momentum and kept some of the stores open, but my question is whether you will close any other stores?

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

We have 744 stores, this is our number. This is a very dynamic number. We are -- we will still open several more stores this year and we constantly evaluate the stores and assess their performance. There is no major trend in terms of closing stores. The growth of same-store sales in the first half of the year made some of the stores that were not performing well and they are now over performing, maybe they have not experienced the same growth levels that they went from non-performing to over performing and we never close stores before Christmas or the Holidays. There is -- maybe we do not expect to close any particular store, maybe some will be closed by other reasons like rental or -- but we do not anticipate the closing of any set of stores, that's not in our radar.

There is a very strong trend towards an increase in the number of stores in the second half of the year, because we will open several new -- many new stores.

A - Frederico Trajano Inacio {BIO 17269235 <GO>}

I would just like to add that we inaugurated two stores this half year and we will inaugurate 20 additional stores in the second half. It's been mentioned both by us and (inaudible) that we are still awaiting for the approval from (inaudible) to open more stores between 30 to 40. So this is the average that we can anticipate. It depends on these 15, there are still under review. So 30 is the average, stores and shopping malls, et cetera.

I'd just like to say that we are still investing strongly in IT, logistics, infrastructure, in our innovation lab, our investment plan is moving full force. The company continues to grow same-stores and we are also growing new stores. The emphasis and the focus is in the Northeast of Brazil, because that region is growing above the country's average. We have already refurbished, almost all Maia stores and we are inaugurating new stores in the Northeast region.

We had two closing of stores. 15 the first time, those were the Bau stores, we closed them because we couldn't operating them. We gave some other 10 another year and then we closed early on in the year, we have our fantastic sale and then we close the stores in the beginning of the New Year. But we are constantly promoting constant evaluations and assessments of the stores.

So if we see that our store does not show future growth, then we consider closing. But in the near future, we will not close any significant number of stores, maybe one or two, if that is the case and if we're about to do conclusion that it's not worth keeping it or sometimes it's because of the location it's not good. But our investment plan is still normal and is in keeping with the budget for 2014.

Q - Luiz Cesta {BIO 15223262 <GO>}

Thank you.

Operator

As there are no further questions, I would like to give the floor to Mr. Marcelo Silva for his final remarks.

A - Marcelo Jose Ferreira e Silva {BIO 2096569 <GO>}

Thank you all very much for attending this call. We are very pleased with the results of this first half of the year. The figures are very consistent and our growth has been consistent and gradual throughout the quarters. We are very confident that we will arrive at the end of the year with many good results. And for the second half of the year we will also deliver good results. We started off well with month of July, we are above the target, we grew in average two-digit and all of the management of the company is very confident with the results of the company for the end of the year.

So I hope to see you again and to discuss the results for the third quarter of 2014. The comparison always occurs based on the previous quarter and the quarter -- year-on-year, but Berto already said that we have 1.2 billion in sales this quarter which is much higher when compared to the same figures of the year before. Thank you very much, and I hope to see you in our next call.

Operator

Thank you very much. The conference call for Q2 2014 of Magazine Luiza is now concluded. Have a good day. Thank you.