Q1 2017 Earnings Call

Company Participants

- Eduardo Galanternick, Executive Director of E-commerce
- Frederico Trajano Inacio, President and Chief Executive Officer
- Marcelo Ferreira, Luizacred Director
- Roberto Bellissimo Rodrigues, Chief Financial Officer

Other Participants

- Guilherme Assis, Analyst
- Joao Mamede, Analyst
- Luiz Felipe Guanais, Analyst
- Maria Paula Cantusio, Analyst
- Richard Cathcart, Analyst
- Unidentified Participant

Presentation

Frederico Trajano Inacio {BIO 17269235 <GO>}

(Starts Abruptly) drop in the same period last year. At the same time, we found the situation in terms of competition that was favorable with the large players, the key players both online and offline more rational from the viewpoint of focusing on profitability, and this is a game that we at Magazine Luiza have always played regardless of the economy. So, the key players are more rational, so this scenario is more favorable as far as we are concerned, because we have always used the strategy. And the small players with more difficulty in terms of supply of products and credit to buy product and also credit to finance their clients still giving a scenario of consolidation in ongoing share gain.

So in this context, more -- less than favorable macroeconomically and more favorable microeconomically. We have an aligned team very motivated and the digital strategy is very well gauged and well defined and we were able to deliver favorable results in all the lines of our balance sheet in brick and mortar stores, and another quarter of good performance. In e-commerce, we diluted expenses. There was a drop in default and we showed more financial services. We generated cash that we used in order to reduce indebtedness.

And with favorable numbers in practically all lines of our balance sheet, and we are very happy with the overall results that we reached in this quarter, which is not common for our first quarter. The first quarter usually is difficult seasonally, so it's difficult to have this kind of result in the first Q.

And Roberto will be going into details and I would like to finish my introduction talking about, from now on, our future. We are implementing our digital transformation project at full speed, with a lot of focus in the evolution of marketplace, five pillars and the platform pillar, which is the marketplace platform that we are emphasizing this year. We had a record of new sellers coming on board in this period.

And especially in April now, we had the highest number of sellers coming on board in one single month. And we already have fruit, we are already reaping fruit from the acquisition of Integra Commerce, the main startup. And what helped us a lot was this velocity in terms of integrating new sellers and the focus of 2017. We'll be on expanding our seller base and maturation of the platform.

So we are not that much focused in GMV this year, but in the introduction of new sellers that have -- already participating in our base, and in the numbers that we published yesterday, we talked a lot about that.

And talking about the scenario from now on, we do not expect large changes in competition or in the macro economy for the second quarter. We expect the second quarter very similar to the first quarter in all aspects that I have mentioned at the beginning of the call, but we expect the change in the second half -- in the second half, there are some questions that we should mention, we will have a more difficult comparison base than the first Q, and the first -- because we had a very good performance in the third and the fourth quarters of last year. And it will be more challenging.

And I think competition will be better organized, not in terms of prices or this is not an option for everybody. I think there is no way back, people have to be more rational both online and offline, but we are talking about more focused and more organized players and a more active competition so to say.

On the other hand, I expect and we believe that we will have a macroeconomic scenario more favorable, so having more tailwind and growth in the sector as a whole, also reduction in interest rate and increase in confidence -- consumer confidence. And this will be more significant.

Well, it will be linked to the reforms that will be approved in the second quarter, but we expect tailwind, and for a long time, we have not had tailwinds in our sector.

So having said that, we wish to continue our focus on execution, implementation of our strategy, our dividend strategy, the motivation of our team, our associates, who are fundamental for the success of our operation and mainly enchanting our clients.

So now, I would like to give the floor to Roberto, and then, we will open for questions.

Roberto Bellissimo Rodrigues {BIO 17269312 <GO>}

Good morning, everyone. Let's mention first the highlights on slide number two, starting with sales. We had an overall growth of 23%, one of the highest growth rates in the last few years, reaching BRL3.4 billion in the first quarter. On the same-store sales concept, we had a growth of 22%, very high, a 12% increase in our brick and mortar stores. And I believe it was the quarter, in which, we gained the most market share, the market performance was 2%, and we grew by 23%. And in brick and mortar stores, 12%, and the market was stable. And talking about e-commerce, I think it's the big highlight, we grew 56% compared to 8% growth in the market, with an extremely high share gain in participation of e-commerce in our sales had a quantum leap from 22% to 28% participation in total sales. So it was a very big progress in e-commerce.

Talking about our gross profit, we grew by 22% our gross profit, very high. Our gross margin dropped 0.5%, because of the mix effect. E-commerce grew much more than the brick and mortar stores. However, we were able to preserve our gross margin in both channels.

And talking about expenses, which is also a major highlight here. We were able to dilute our operating expenses as a whole by 2.3 percentage points. We reduced our SG&A to 22% in the first quarter, which is also -- is the lowest level in the last few [ph] years, and also as drivers for this reduction in our operating expenses, we had the very strong growth in sales, allowing us to have very good operations in brick and mortar stores and very accelerated growth of e-commerce, which has a lower level of expense than the average, due to our strategy, which is fully integrated in multi-channel.

And also the maturation of the project of ZBB and GMD. Many initiatives were implemented over the last year, so becoming more mature and contributing as a whole to the expense control.

EBITDA, 61% growth in EBITDA, margin of 8.3%, also our highest EBITDA margin of all times. Recurrent, and especially for the first quarter, this is not usually a quarter that has the highest margin in the year, because of seasonality. So this margin was very high for the first quarter. And also the evolution of our net income from 5 million in the first quarter last year to 59 million in this quarter with an ROE of 32%.

Working capital. We improved our working capital 381 million in eight months improvement and we reduced our adjusted net debt as well. And as a consequence, with the growth of the EBITDA, very high as well, we decreased our leverage to 0.5 time EBITDA. So one of the lowest levels of leverage since our IPO, for example.

And lastly, Luizacred had an excellent performance income, net income growing by over 55% and return of Luizacred going back to a very high level, 28%. And also a very strong reduction in the NPLs, growing our sales, growing our portfolio at the same time, which is very good for the business as a whole.

On the next few slides -- on this next slide about operating performance, we show you the evolution in the number of stores in the last 12 months. We opened 18 stores for already this quarter according to the plan that we have in place and that we have already talked about in the previous quarter of intensifying the pace of opening new stores. And our investments went up because of that over 50% in new stores and also in technology, together with our digital transformation plan. Average age of the stores, most of the stores are already matured which is very good as far as profitability is concerned. But the Northeast for instance, which is the matured region continues to grow very strongly. And this was a highlight for us in terms of growth as well.

On the next slide, we show the quarterly performance of the gross revenue. It is the fifth consecutive quarter of growth in sales and the pace is accelerating, highest growth rate in the last five quarters, and with almost the same level as the last quarter last year, which includes Black Friday and Christmas, 600 million more than the first quarter of last year which is an incredible increase in this quarter. Internet selling even more in the last quarter of last year with a 56% growth based on a growth of last year that had already been very high, around 27%, 28%. So a very good sales performance with market share gain, a very high one.

And on the next slide, we show the performance of gross profit and gross margin. I have already talked about growth and the factors that explain the variation in our gross margin.

I would like to mention here, expenses as a whole grew by 12% compared to 24% growth in net revenue. So a very good operational leveraging, and the very big dilution of more than 2 percentage points.

And practically in all areas, we were able to hold our SG&A. SG&A is growing very little, e-commerce helping a lot in this regard. ZBB, the

Expense Matrix Management and many other projects having to do with our strategy of digital transformation that have been bringing more efficiency and more automation also in the brick and mortar stores, and thereby, gaining productivity.

Equity income, we -- a very interesting increase here, and equity income as a whole was 0.2 percentage points better than last year.

On the next slide, we show you the performance of our EBITDA on a quarterly basis. The highest EBITDA in the last five quarters, and due to the fact that we have already mentioned, growth in sales, a positive contribution to our e-commerce. We have always said that there is a positive contribution from e-commerce to our result and dilution of operating expenses, improvement in our partnerships, financial partnerships.

On the next slide, our financial result. We also diluted our expenses, both prepayment of receivables and other financial expenses, 0.4 percentage points. And reminding you that interest rates started to drop now, so the benefit from this drop should be seen over the next few quarters.

And I would like to mention that the cost of capital has already started to drop, we had just approved an issuance paying a 109% of the CDI for one year, 112% for two years. And at the level of spread, much lower this year than it was in the last couple of years.

So with that, we have a good expectation in terms of diluting our financial expenses.

And on the lower part, we show you the performance of our working capital. We started to -- reported adjusted net of receivables that are practically cash, so the best way to look at the working capital with this one. And according to this concept, we improved 380 million in 12 months in the working capital, in practically all account. So we improved the turnover of our inventories, and it was 66 days which is very good for one first quarter.

Growth of e-commerce has been helping us a lot in this sense. And another benefit coming from multichannel, so all our inventories are integrated and the turnover of inventory in e-commerce, of course, is faster. So it has been helping us in terms of improving our turnover. At the same time, we were able to increase the average term in a very healthy manner and sustainable manner without increasing the COGS. And also, we reduced our account regarding taxes and other -- other accounts, both assets and liability account that are sustainable. So, we generated 380 million in cash coming from working capital. And with that, plus the results from the operation, over 400 million reduction in our net debt and leverage of 1.6 to 0.5 time EBITDA. So one of the lowest leverages of our history.

On the next page, net income on a quarterly basis. In the first quarter, it was a highest quarterly net income since the IPO, even higher than the fourth quarter of last year with an ROE, a very interesting one, around 32%, and the net margin of 2%.

On the next page, we talk about Luizacred; a major highlight as well. Total sales of Luizacred 22%, total billings inside Magazine grew by 45% and the participation of the Luizacard in the sales of our brick and mortar stores reached the highest ever level, 30% this month, together with about 10% of direct consumer credit, we are able to finance about 40% of our clients. And we were able to grow the billings of Magazine Luiza card, at the same time reducing all the delinquency indicators highlighting NPL over 90 days, dropping 3.6 percentage points. And at the same time, we increased our coverage ratio, and we reinforced our provisions and the coverage ratio from 121% to 132%. So you can see that the Luizacred result was very complete growing billings, growing portfolio, reducing the level of provisions by over 20%. Already feeling the first results of the cost of funding reduction, and one of the highest quarterly profits growing 50% with a return of almost 30% as well.

And lastly, we repeat our expectations for 2017, which are continue to capture the gains from the digital transformation projects, developing consistently our marketplace platform, continue to gain market share sustainably, focus on managing expenses, SG&A as a whole and working capital, generating cash, a very important target for us besides intensifying the opening of new stores, and also benefiting from the reduction in interest rate in Brazil.

So with that, I would like to give the floor back to Frederico. Thank you very much.

Frederico Trajano Inacio {BIO 17269235 <GO>}

Thank you, Roberto. Now, I would like to open for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will start the question-and-answer session. (Operator Instructions) The first question comes from Joao Mamede from Santander.

Q - Joao Mamede {BIO 15265292 <GO>}

Good morning, everyone, Fred, Roberto. I would like to talk about the performance of online sales in the first quarter. It was more positive for retail and even taking into account this macro increase, your online performance was spectacular, much higher than anything that might come from the macro side. We know everything you have been doing in the last few years in terms of digital and all the initiatives. But I would like to know, this quarter, Fred, there was something especially contributing to this performance, because the comparison base was very, very strong. And on this very strong base, you were able to accelerate vis-a-vis the fourth quarter of last year. So maybe you could give us some color about that.

And the second question is about something that you said about rationality, more rationality in competition in the first quarter. And what was my attention is the fact that as of last year, beginning of this year, many of your competitors at least some of the large players also started to tap into the benefit of that lay to being [ph] and this could be a trap because it creates a certain cushion for a more aggressive behavior on the part of some competitor maybe wanted to gain market share, using part of this benefit.

And apparently based on what you said, this did not happen. I know it's difficult to talk about what competition is thinking of course, but I would like to know if you have any view about that what happened to lead these competitors to have a more rational behavior?

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

Thank you Joao for the questions. There are two parts in your question. In fact, two questions. And the first part, I think Eduardo Galanternick, our executive, our E-commerce Officer will be able to answer, but overall about e-commerce specifically, I think it's important to notice that e-commerce growth, if you look at last year, you will see that in the last quarter, we already had a good performance, about 40% increase if I'm not mistaken, the last quarter of 2016, and now going to 50%.

So the operation is going very well. We have a very good operation with a very good performance on the part of our team and a positive results as well. And I think I'd like to say this because there is a market component there besides our execution. The market is a market in which all the players were losing a very good -- very high number -- were losing a lot. And when you get into a crisis, when you have a high interest rate and the market is tough, and liquidity is very low, the situation becomes impossible.

So what I have been saying for a long time since the IPO during our calls is that at some moment in time the online market would have to become rational because the cash burn could be sustainable at some -- for some time, but cash burn has to end because shareholders want to have a return. And online market and the operations that we're losing a BRL100 billion, BRL200 billion, BRL301 billion of cash burn per year. These operations will have to revise their strategy and this is what is going on. So you have to pay your bills. You have to pay your suppliers, your expenses your employees, and you have to generate cash for that, and you cannot count on the market always in order to raise funds.

So this change in online becoming more rational, it's even more important and deeper than the offline market.

And when I talk about rationality, I'm focusing on the online market, that is trying to become more rational, although the model that I see, which is not a multi-channel model. It's difficult to get to rational level, when there is a cost advantage also vis-a-vis the online only, because the cost of online are divided with the offline and the multi-channel model that we have been developing for the last 17 years is operationally superior.

So I'm able to work and operate with margin levels and profitability levels that the market is not able to. Afterwards, Eduardo will talk about the specifics of this operation. And then I will come back to answer your second question.

A - Eduardo Galanternick {BIO 20410320 <GO>}

This is Eduardo. Good morning. In relation to the growth in sales, it was very well distributed between conversion, ticket, et cetera. And regarding calls or visits, it was because of the mobile, or it -- it is because of the mobile platform that we have 5.4, -- an application that has a good conversion. So the migration of traffic to this device is not impacting negatively our conversion.

Conversion was also impacted by a reduction in shrinkage and also a decrease in the delivery time and all the efforts that we have been making, distributing the merchandise among our DCs, the impact of the store pickup as well.

So overall, the result was driven by many factors and the calendar was very strong. We had a fantastic sale, fantastic promotion, which is important in the first quarter with a very good result. March itself was an excellent month with the favorable calendar, with no holidays. And we had a very strong IT fair and we are very good in IT. We have the second EBIT with a very high market share, over 20% market share in this category. So it's an effort made by the team as a whole of dealing with all the details and it has -- our execution has many details and we are working on that. So regarding the market as a whole, more specifically tax issues. I believe that the market has to become rational. There were many operations in the red and maybe they benefited from some -- benefitting some legal that can -- they can improve a bit. I have always said, I have always believed that at some point in time this path towards more rational operations as that really bring return to shareholders is reversible, and this is what will continue to happen over this year.

I do not think this is going to change significantly. I do not expect any big actions price wise from the competition. I think the competition will probably have more structured operations and maybe there will be more liquidity for SMEs. So in this sense, we can expect maybe a fiercer competition, but nothing more aggressive in terms of reducing their margins. I think nobody is going to play this game because this is very dangerous at this point in time. And I believe that even for the future besides being dangerous, it's not good from the viewpoint of generating value to shareholders.

Q - Joao Mamede {BIO 15265292 <GO>}

One last point, very quickly, working capital. Roberto you made some remarks about the dynamics and how growth changes the dynamics of working capital because of the fast growth of internet. But can you quantify this improvement that you are achieving, because at the same time, the growth of the company demands more working capital. So could you give us an idea of how much came from this change in channel because e-commerce will become more and more important. So how much more help will you have from e-commerce in your working capital dynamics?

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

Thank you, Joao. Well, let me give you my view. We have negative working capital, receivables, ex-receivables, we have more suppliers in our inventory and we are able to grow by generating cash. Regarding our receivables, well this is seen as almost cash and we improved even this account, but let's focus on the explanation [ph] about inventory. We improved by seven days the inventory turnover, 73 days to 66 days. We improved the inventory turnover in both channels, so inventory turnover to e-commerce improved a lot and it was already lower than the brick and mortar stores. It's important to say that in the brick and mortar stores, we also improved our inventory turnover, and we grew again, and so it becomes much easier to improve inventory turnover when sales are growing as well.

Last year, we didn't have growth in our brick and mortar stores. I do have the sample inventory that is almost a fixed cost. You cannot dilute that, and when we started growing by two digits in our brick and mortar stores and improving inventory turnover of these samples in the brick and motor stores, e-commerce also improved and the turnover was lower than the average.

So all the factors were positive drivers. I cannot quantify that, how much came from e-commerce, and how much came from conventional stores, but the two channels improved a lot their inventory turnover with a positive effect of the mix, which is the higher participation of e-commerce. And as we said, this is a trend as e-commerce grow structurally more than the brick and mortar stores. We have the opportunity to continue progressing in turnover of inventories.

And on the supply side, we have joint purchases, so if we have the opportunity to improve that, that will be good, but we already have a very healthy condition there. So we tend to increase this gap as e-commerce grows and helps in the working capital dynamics as a whole. However, it's already positive. Our working capital, our net working capital is already negative.

And marketplace also have helped even more in the same direction. So we are very comfortable with our trend for working capital from now on.

Q - Joao Mamede {BIO 15265292 <GO>}

Very clear. Thank you very much, Roberto.

Operator

Richard Cathcart, Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good morning, everyone. I would like to ask a question about online and offline. Do you have a higher conversion rate? Do you have current clients working -- buying more frequently? I would like to know about this growth in sales on both channels.

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

Richard, good morning. Thank you for your question. As Eduardo said, just to elaborate on what he said, it was everything, we grew average ticket, we grew conversion, we grew sales to new clients. In order to reach this 56%, you have to have a good performance in all fronts. And highlighting mobile, we invested very much in the mobile platform, so we made a high investment in our app. We have over 5 million downloads of our app. It's one of the most frequently downloaded app in Brazil, and one of the leaders undoubtedly or maybe the leader in UP [ph]. So it's by itself significant, so the right execution and the right decisions, all that generated this result.

And I would like to remind you, it's very important that the e-commerce dynamics in the long run is positive. So I'm not surprised with the growth of e-commerce, because this is a trend. The participation of e-commerce in the Brazilian retail is still 3%, 4%. If you see this figure of Mercado Livre in Brazil, it's about 60% growth. So if the operations are well-organized with good teams, very well trained team, with a lot of focus on sales and on growth, if you have all that, then you will have a good performance. It's not just the Magazine Luiza, it's a long-term trend and there is no way back about the increase of e-commerce and the total sales of the company.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you. Another question. What about the performance of the -- to say at large [ph].

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

We have a 100% of our stores -- the participation of the store pickup. It has been growing a lot. And it's a major difference of Magazine Luiza, because the clients that choose picking up their merchandise they do not pay for freight and also the delivery time is better and we are working to have 48 hours in many stores, in almost all the stores, and this is our target to have 48 hours for the store pickup. It's not the case yet, but the greatest Sao Paulo area is already working with this timeframe as of April, if I'm not mistaken.

So it tends to increased participation and give an additional contribution for the advantages of the site, the website. When you compete with other chains that don't have this and that are online only, we will have a very big strength [ph] in our hands, strength in our hands which is the delivery and the cost of -- the cost of delivery and the timeframe for delivery. So in over 17 states we have really an invincible value proposition in this regard.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you. Excellent.

Operator

Luiz Felipe Guanais, BTG Pactual.

Q - Luiz Felipe Guanais {BIO 19933939 <GO>}

Good morning, everyone. My question has to do with the growth of marketplace. In the release, you said that the assortment of the marketplace platform is 98% complementary to the B2C and Magazine. And this has to do with the next financial growth in the number of SKUs for the company. I would like to understand Fred and Eduardo. How you see the evolution of assortment between B2C and marketplace over the next few years as marketplace grows? And if you think about leaving some categories in B2C in order to favor some specific sellers in the marketplace platform?

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

Thank you for the question. The focus today, well, mainly in the core categories, we do not intend to leave them, because we have a very comfortable position in which we are making money with UP, with the categories that we buy and sell. So we are having a good profitability from these categories differently from some players that have losses in this category and that have to accelerate marketplace in order to offset that. And we have a very profitable operation in these categories.

So we are among the two or three and sometimes the biggest buyer from vendors. So for a commodity category such as (inaudible) it's very difficult for somebody to beat us maybe some special line of product and the inventory balance may be, but in most items and in most sales, this will continue or -- we will continue to be one of the most important, and this is the view and the focus that we have.

It's just to supplement our categories. We already have supply selling directly Electrolux and (inaudible) and others will sell directly as well. So we are and Multilaser and many vendors are -- many sellers are selling directly. And the focus is on supplementary categories, where the turnover is not so fast.

We are not going to exit categories, we are probably leaving some SKUs that sell not so much and the turnover is slow or maybe the profitability is lower, but this is not a significant change such as the one that we have been seeing some players in the market.

Q - Luiz Felipe Guanais {BIO 19933939 <GO>}

Thank you, Fred.

Operator

Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Hello. Fred and Roberto, thank you for the questions. You talked about sales and I think this is quite clear and your competitive advantage as well. There is a remark in the last slide in which you see a potential for growing stores as well. Is there any specific region with higher potential for market share? You opened 18 stores in the last 12 months, and if I'm not mistaken. And I would like to know if this is a pace of expansion that could continue or with the rebound of the economy, you could accelerate your expansion.

And one second question. Among the highlights of your results, you had the good cost control with all the initiatives that you have been putting in place and also the dilution of SG&A with the growth in your revenue, with the digital transformation with all the initiatives, mobile cash, et cetera, could you have higher productivity gain, reduction in headcounts in stores or efficiency -- increase of efficiency in sales per store employee?

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

Guilherme, thank you very much. In fact we have resumed the opening of stores. We are opening -- well, we opened (inaudible) now, yesterday, today. So we already have some many -- many locations already contracted, and we intend to open new stores over the year. And the stores, the brick and mortar stores are very important. I would like to remind you that our strategy has to do with digital. However, having the brick and mortar stores because this is very important for our online proposal.

In the pickup, store pickup, we can have much better conditions. Very competitive vis-a-vis the market, so increasing our base of brick and mortar stores. It makes a lot of sense in the world, because it gives a positive contribution. And also because it's very important, competitive, different of our model, vis-a-vis the online-only players. So we want to continue our pace of expansion. They are relatively small stores vis-a-vis the competitors, and we have a good moment in the market in which you do not pay key money and you get very good cost per square meter.

So we are very well-disciplined in terms of opening locations that can stay open for 20 years, very lean stores, small stores, because a lot of what we sell does not have to be there physically in the store, because it's showed on the mobile phone, because with the automation of the store, which is one of the pillars of our store -- of our strategy, we can gain a lot of productivity. I don't need a lot of space, because my inventory is in the cellular phone. I do not need a huge team, because the sales person receive the money in his mobile POS.

So I don't need a lot of people, and 40% of our store people are in the back office.

And looking ahead, we want to transform this back office in generators of revenue for the company and sellers -- selling people. And we reduced the SG&A of our stores, and we still have a lot of opportunity to reduce by means of automation, and by means of mobile sales. And it helped -- January for instance was excellent for the company, and a lot of that was because of our sale or big sale, our promotion, which was very good. Also, because as we had all our stores with mobile sales, you can close the sale in two minutes, without the mobile, so it's 40 minutes.

So they gained a lot of our productivity in peak days, such as this promotion, where you have hundreds and hundreds of people coming to the stores.

And we were able to grow our sales with the staff that was the same as last year. We grew sales with the same number of people, the same headcount. And automation, the store is fundamental to reduce expenses. And when we invest in store automation, there are two focuses, improve the shopping experience and reduce the cost of the store.

We want to have the store with a cost very similar to e-commerce. So that it may be competitive.

And I believe that structurally speaking, the best way to do this is by having investment in all these projects that we have been carrying out to automate the POS, and many others as well that we are implementing now.

Q - Guilherme Assis {BIO 16143141 <GO>}

Fred, two things. In the first answer, you talked about the synergy, which -- in your model. Does this mean that you're going to open more virtual stores as well or not? Or do you believe it will continue more in the brick and mortar stores vis-a-vis the virtual, regarding dilution and your strategy? Is it possible to quantify this? You talked about having store productivity similar to the virtual store. What is the difference today, can you quantify that, and how much can you achieve more?

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

Answering your first question, yes we intend to open more virtual stores, vis-a-vis conventional stores this year. So this is a strategy of the company, increasing this proportion, however, we will continue to open both. Today we are inaugurating a conventional store and we have many virtual stores already programmed and scheduled and that were already opened in the last few months. But the proposal between conventional and virtual, because this is very similar to what we believe, it will be the store of the future, it's very high. So the answer is yes.

So the second point Guilherme, we don't really disclose this. We can even talk about this after the call, but this is not something that we disclose. I cannot say anything that could be represented or understood as guidance. But overall, it's very difficult, because e-commerce the main cost of physical stores is the payroll, 70% of the cost of conventional stores, 60%, 70% of the operating costs of this brick and mortar store is payroll. And so you don't have this situation in the virtual store. So it's very difficult to get to the same cost base and the website. But we have to work on that ceaselessly, because retail need to understand that they have to reduce this gap, bridge this gap between conventional stores and the web. So I cannot quantify this right now.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you.

Operator

We will then go to Itau BBA.

Q - Unidentified Participant

Good morning, everyone. I have two questions. Could you talk about the progress of mobile? How much it represent of the total e-commerce sales? What comes from the app, and what comes from the website via mobile? And is there a very big difference between the average ticket and repeat shopping?

And another topic, could you talk about your gross margin in this dynamic? Could you talk about the evolution of each one of the channels? Are they relatively stable, the drop has to do with the mix, because e-commerce growing more, or is there some change happening in each one of the channels separately?

A - Eduardo Galanternick {BIO 20410320 <GO>}

(inaudible) good morning. This is Eduardo. Traffic is over 50% in the last quarter, 54% sales, already exceeded 30% of what we call B2C. Most of the sales come from the app. Although traffic is not the biggest part. In sales, it is the biggest part. And we are improving our platform of the mobile site and continue to invest in the app and improving the platform of the mobile site. So doing that, we expect the participation to continue growing.

Maybe Roberto can help me to answer that.

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

This is not a big mystery. E-commerce works with the lower margin than the conventional store, because the expenses are lower as well. What happens is that, what we have in our result. What happened in the first quarter was the following. There was no change per channel in the margin, so the margin of conventional stores vis-a-vis last year was stable.

The margin of e-commerce vis-a-vis last year was stable, because the market is more rational. There is no reason to have many changes there. So general figure changed, because e-commerce gained share, a slight drop in the overall gross margin was because of the participation of e-commerce and not because of the dynamics of e-channel. And the counterpart of that is that the EBITDA more than offset this reduction margin.

So as e-commerce is a business that has a lot of operating leverage when we grow, and we increased the participation, SG&A drops, because you don't need to contract people to grow e-commerce such as you have to do with the conventional stores, it's more productive, it's more asset light to say than the brick-and-mortar stores.

So -- and marketing as well is much more efficient than the conventional stores. It has a higher return than the conventional stores marketing. So with the scenario, what happens is that we end up having an increase in EBITDA with the growth of e-commerce, and this is what we have to look at the operating cash generation.

It tends to contribute to the operating cash generation, not to mention. And this is something that everybody has to think about the ROIC, because e-commerce, due to the fact that, it is asset light, it requires less capital, less investment. So we are able to grow a lot, the CapEx level historically low much because of that. And looking ahead, we will have to increase CapEx a little bit, because we want to continue to open stores because of our multi-channel view, we are a multi-channel operation. We do not prefer one channel over the other. So we believe this is the winning model, and it is the best alternative to tap into the growth of e-commerce in Brazil. And e-commerce depends in our case, the success depends a lot on the conventional stores. They are -- they go hand in hand, so they benefit from more items available in some moment for instance over this year. Market based products will be available also to the sales people in the stores. So one plus one is three not two. If you add up the channels, it gives a much positive result, much more positive result. It's the old synergy that we are talking about.

Q - Unidentified Participant

Thank you for the answers.

Operator

Maria Paula Cantusio, BB Investimentos.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

Good morning. Thank you for the results. Congratulations for the results and thank you for the questions. Could we talk about the marketplace. Maybe you could give us some color about the number of sellers that came on board in the last 12 months. And how much marketplace already represent of the e-commerce sales, and what have you been doing so that the SKUs be really a supplement to your portfolio? Have you been choosing the players that sell different products from the ones you already have or you only allow them to sell part of their portfolio in your e-commerce? And also same-store sales, how much came from price and how much came from traffic? I don't know, if you give this kind of information?

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

Thank you for the question, Paula. About marketplace, we reached 220,000 SKUs from third parties and we exceeded 100 partners, and in April alone we signed over 30 partners, 32 to be precise, and very good ones, such as Spicy, Avon, ClimaRio, Havan, which is growing a lot in Brazil and are the big sellers in Brazil. Connectparts, which sells automotive components, and Drograria and Onofre getting into this segment. MadeiraMadeira which is a category in the furniture area. Drograria Sao Paulo, Pacheco chocolate. Now in Asia, for the first time in the 60 years of history of Magazine Luiza and this partnership with Mondelez was very good with the Lacta Chocolate. So, it's growing at full steam, total focus in the introduction of new sellers and also introduction of new categories.

And you can see that they are complementary this year and we will have competitive products and all kinds of products in our website. But as we had to choose, we had to choose first the categories that really supplement what we have in about 98%.

So we are very enthusiastic about this, and the focus this year is not GMV -- GMV, and it is really quality, and with the same quality of service that we have, and improving the platform. And when -- with all these SKUs coming in may lead us to have a very user experience -- a very good user experience, it's very user friendly. And we are very much focused on doing this in the best possible way. We have to do this consistently and accelerating it, but not in a hurry, not to the detriment of our service level or -- and we are very focused on adding new sellers.

And doing this by maintaining a good shopping experience and -- such as we have on the website and also very much focused on the product.

When we say product, we mean platform, having a very good platform for the seller and for our customers as well. This is our focus.

What is your second question?

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

Same-store sales of conventional stores, what came from price and from traffic?

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

Well, we do not disclose information unfortunately, what I can say is that we grew in two aspects average ticket and traffic.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

Just one more question about retail, what is being done regarding your pricing policy to gain gross margin that you mentioned in your release?

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

It was in e-commerce, Maria Paula. What we said in the release is -- was that, one of the aspect that helped conversion was the improvement in this area. Maybe because our competitors were more conservative and our competitors got closer to the price situation that we had, and because of that, we increased our conversion.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

So Luizacred now, the dynamics that we have been seeing a reduction in your direct consumer credit and personal loans. Do you intend to continue to reduce and offsetting this with the partnership with Losango or have you already reached a level that you consider as very good and maybe from now on you will be able to increase these portfolios?

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

Maria Paula, thank you for the question. This trend is ongoing in Luizacred. The focus of Luizacred is the Luiza Card which is the instrument that brings more loyalty and brings a better relationship with the clients and better service, et cetera. So most of the actions of Luizacred have to do with the Luiza Card that is having, by the way, a very good performance. In direct consumer credit, but when you don't have, Luizacred reduced the approval rate and allowed us to have this partnership with Losango which is also going very well.

And recently we are piloting, we started a partnership with Santander Consumer Finance in a model similar to the one that we have with Losango. So the idea in client financing is to have this in marketplace we sell Luizacred products, but we can sell products of Losango and also of Santander and so on and so forth.

In Luizacred, these portfolios are personal loans and direct consumer credit should not go up. We could grow in these areas with other partners. And Luizacred continuing to focus on the Luiza Card and growing Cartao Luiza, the Luiza Card. There is room for growth for Cartao Luiza, the Luiza Card in the conventional stores, e-commerce and we have many opportunities for growth, also in Magazine.

Marcelo is going to add to that.

A - Marcelo Ferreira {BIO 16849609 <GO>}

This is Marcelo Ferreira. Thank you for the question. I would like to clarify one point. Personal loan is a product called Grana Extra, the extra money. This is a card. It's a personal loan. The credit card also has a category of personal loan and we intend to continue expanding it. But you don't see this in the portfolio. You don't see inside it. So it doesn't mean that we have stopped giving personal loans. Personal loans that are not linked to the card, we give to old clients, clients that we have had for a long time.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

Thank you very much for the answers and good day.

Operator

Now, we close the question-and-answer session. I would like to give the floor back to Mr. Frederico Trajano for his closing remarks.

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

Once again, I would like to thank you all for participating in our call, the analyst for the questions, and our team for the good performance in the quarter. Have a good day.

Operator

Magazine Luiza's conference call is closed. We thank you for your participation, and wish you all a very good day. Thank you.