Q3 2017 Earnings Call

Company Participants

- Eduardo Galanternick, Executive Director of E-Commerce and Member of Executive Board
- Fabricio Bittar Garcia, Vice President of Operations
- Frederico Trajano Inacio Rodrigues, Chief Executive Officer
- Marcelo Jose Ferreira e Silva, Vice Chairman
- Roberto Belissimo Rodrigues, Chief Financial Officer

Other Participants

- Guilherme Assis, Analyst
- Irma Sgarz, Analyst
- Luiz Felipe Guanais, Analyst
- Maria Paula Cantusio, Analyst
- Robert Ford, Analyst
- Ruben Couto, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and thank you for waiting. Welcome to Magazine Luiza's Conference Call related to Results of the Third Quarter of 2017. Currently, all participants are connected on listen-only mode and later on, we will initiative the Q&A session, when further instructions will be provided. (Operator Instructions)

Now, I'd like to give the floor to Mr. Frederico Trajano, CEO of Magazine Luiza. You may proceed, sir.

Frederico Trajano Inacio Rodrigues {BIO 17269235 <GO>}

Good morning, everyone and thank you very much for participating in this conference call for the third quarter results of Magazine Luiza. Here with me are all of the executive officers of the company, we'll also be available to take your questions at the end of the presentation.

Now, I will start with a brief presentation with the highlights of the company during the quarter and then Roberto Bellissimo, our CFO will give you more details on the financial figures and after that we will open for questions. As we said before in our last call, we were still very excited with the macroeconomic landscape for this quarter. We already anticipated a possible pickup of the economy of Brazil. So it was -- there was a rebound and we are very excited because we see the end of the recession after two years of a downturn because the industry had a decrease of almost 20% during the past two years in terms of revenues. And finally, we see positive economic signs saying that the recession is over.

And looking at the current results, we are very optimistic because what we found in this quarter, in the third quarter of 2017 is something that we will probably see in the next third quarter. So now we'll elaborate more on that at the end. So I can certainly say the recession is over. So we see that consumption is picking up. The landscape is more favorable, lower interest rates and we see the fact that loans and credit is resuming, the limits are increasing although, we are very confident with all of that.

Now, I believe that given the current exceptional moment of the company with a very winning and successful business model, we can say that in this quarter, in the third quarter of 2017, it was just natural that we will add up to our growth, adding up to the growth of the last five years. So there are many highlights to be mentioned in this quarter and it's certainly a good reason for us to celebrate our 27% growth vis-a-vis the previous quarter. And we already had a very strong base in the third quarter of last year. And so, we had to grow based on that very strong basis. So in this very competitive landscape and with a positive macroeconomic landscape, this is very important to our results and this will certainly be the case in the next following quarters. So the macro will be more relevant to the quarters going forward rather than competition or growth in this competitive landscape. So that's why I am very confident of our successful position going forward.

And I will just mention some of the highlights of our results. It is important to say, the results last year, we are very disciplined in our view to transform a traditional retail company into a -- an e-platform based on some pillars, physical stores, multichannel, Marketplace and the digital platform. Every quarter, we present new and significant performances, when it comes to the execution of this strategy. First of all, I would like to refer to our e-commerce. We grew for the third quarter in a row more than 50%. This quarter, we grew 55% without even considering the results from Marketplace, which are not reported yet. So we grew in comparison to a very strong base, now 30% of total sales.

First of all, I may highlight our application, 7.7 million downloads in our -- in our digital platform in all of our -- in all mobile devices accounting for 70% of our traffic and 40% of total e-commerce sales. So when we invested in mobile devices that proves to pay off and this has been one of our growth driving forces. I would also like to say that we also grew the Magalu market. These are consumer goods that were launched in this last quarter as well.

As for instance, personal hygiene products, home cleaning products, baby products and coffee and chocolate products that was -- that had a significant growth in this category, and then I think they will grow more in the future. These are the long tailed products or categories, which are different from the categories we used to carry in Magazine Luiza. Magalu is one -- 1T and 3T [ph] and we are already making that available in our stores and e-commerce and that's another important highlight because it has posted significant growth.

Our Marketplace from all of the numbers that we disclose, we have more than 500 sellers. There was 1 million products available going from 40,000 items last year to the current figure show a significant growth. We have many partners, Electrolux, Farmais, Kikos Fitness [ph] among so many others, new partners that joined us in this approach. So even though, we grew the number of sellers and the number of products, we still remain the most selective marketplace in the market when it comes to include new sellers. We had almost 30% of rejection rate of sellers that wanted to join our platform. So we have a very severe credit score process and we conduct a very thorough analysis and it's important that the companies are willing to abide by our standards, not only ethical standards, but standards of service.

Our Marketplace is also an opportunity for us to grow. We are very optimistic and this has been very successful. But we are not going to do that in determent [ph] to our service level and quality -- quarterly standards. We will not grow (inaudible) of anything else because we do have great respect for our consumers. That's why we are following a very responsible approach that we are still growing very much and we are still outperforming and over performing.

I would also like to talk about the growth of our physical stores. Same store sales grew 15%, when compared to 6% growth last year. So there was a total performance of 19%. We are already benefiting from the opening of new stores. So not only, we count on same store sales, but we have to look at brick and mortar stores and total sales, almost 20% growth, 19% growth in the quarter and we will continue to see good figures because we are opening more stores. And these stores will certainly be incorporated in our total numbers in the next quarter. So this quarter alone we inaugurated 16 stores with a total of 39 stores in the last nine months. And as we said before, we should open 30 more stores this year, 60 in total. So we still have to open 30 more stores until the end of the year. We believe that we will hit that number, which we already disclosed to the market. And so we are being very aggressive in terms of a follow-on, which I will elaborate more in -- later on.

When we talk about digital inclusion, our service sales increased significantly and the highlight goes to Marketplace commission. And also the sales of digital services and digital inclusion like Lu Connected, this includes installation and other services to customers and we are selling that very successfully in all the stores of the company and the Controlling Plan and buyback as well. All of these services have posted good performance, as well as other financial services like insurance, in general that are presenting spectacular growth.

In terms of digitalization of the physical stores process, we initiated the pilot program of the digital platform that has to do with the check-in and checkout process in the store, which is very quick today. I mean, this digital tool allows the sales person to approve the credit in only a few minutes and we also have a facial biometric system. This is another analog system that is made available by Magazine Luiza. And every quarter, we make new announcements, so that proves that our team both business team and Luizacred is performing quite well.

And we saw another dilution of expenses despite the e-commerce growth showing that the multichannel Magazine model is a winning model and certainly this will continue going forward. And in two working days, we had a good offer that increased the number of buy online and pick-up at the store is something that also grew and proved to be very successful. And then, we are also strengthening our multichannel pillar with the introduction of the possibility of store sales people selling online. We have more than 30 sellers already eligible to sell that way. And all of the -- the 3T categories will be available to all the stores and through all of the 10,000 sales, individual sales reps for Magazine Luiza. So the seller that places their products in Magazine Luiza, not only they will sell their products through our digital channels, but they will also be able to sell it in the stores through our mobile sales channels.

I already talked about the store pick-up system, but we are also evolving in other areas. 98% delivery ratio. Our delivery term on average, which has been to promised to customers is even better. It's 25% lower than the delivery term provided by other competitors in terms of the carrier mix. And we are -- we also almost have 30% of the deliveries to Sao Paulo and Belo Horizonte done in one day or less than one day. But we still have a lot of room for improvement and we know that we will be able to improve the delivery time to be able to deliver in a very short period of time.

I would also like to talk about the roll out of another app is called Mobile -- Integra Mobile Deliveries. It's already in Magazine Luiza's channel and there are more functionalities being added to that platform. We already added the routing functionality to our drivers. We already track all the orders and with that the information that we provide to customers is much better. It's easier to track the product. And we already have the automatic e-mail system and that has allowed us to -- to drop by 56% the rate of contact per order in relation to the year before.

And with all of the new additions to our logistics system, we have a very, very good rating by customers and we are already maintaining a good score at Reclame Aqui. So I would also like to talk about the (inaudible) purchase, one touch purchase. So with the application, you can purchase with one urgent pick up at the store, so we are facilitating the entire purchasing process. We already have automatic pricing for 10,000 products. We were the only Brazilian company to launch sales Google this quarter and we made many improvements in terms of wedding, the wedding list and Magazine Voce (inaudible) is another direct channel through social media now.

The Magazine Voce sales rep can also, I mean, it's only a -- it's still in a pilot phase, but you -- he can sell it immediately through cellphone using a credit card machine and that's part of our initiative called Magazine Voce and I'm sure that through this channel we will be able to grow sales even further. There are many innovations in all five pillars of our strategy. I would also like to highlight that we were elected once again, this is the 20th year in a row as one of the best companies to work for and we are the best retail company to work for. We were proud of that and maybe that is one of the reasons, why we celebrated so much this quarter. And by the end -- at the end of September, we finished our follow-on and we were able to capture BRL1.5 billion that will now be part of the company's cash. I can elaborate more on that during the Q&A.

We put that in our prospectus and that's for long-term investment. We want to continue deploying our digital transformation strategy to add that to our physical stores. We want to take that view to more geographies in Brazil. And we feel that we are way ahead when it comes to deploying the view of digital platform attached to the physical stores and we just want to enhance this advantage, making investments in technology, logistics to grow our physical stores because this is very important if we want to pursue further our concept of store pickup. So we have POSs that also work as distribution centers. So in summary, all of these investments will be done in the near future and with the new stock offering, we will be able to enter a new market MSCI, (inaudible) therefore, we are very confident because of the daily trading volumes that we see happening today.

And at the end, I would like to reinstate what I said at the beginning that I am very optimistic vis-a-vis at least the next three quarters. At the end of the year, it's usually very strong because we had a contained or a limited consumption, but now with low inflation and lower interest rates, we have to be very optimistic vis-a-vis the macro landscape for the next quarters. Next year, there is the World Cup and repeating what happened in previous years with the World Cup, the year as a whole and particularly in the first half of the year, we anticipate further growth. Therefore, we are optimistic vis-a-vis the next quarters.

And in terms of the competition, I think the biggest competitor is Magazine Luiza from the previous quarter it is -- and it's not an easy competitor because we compete against ourselves, competing against quarter-on-quarter, when we look at the comparison from last quarter and this quarter, we see that we are competing against the numbers from the previous quarter and with a favorable macro landscape that it was not so favorable in the first half of this year and not even in the last half of 2016, I think that we will continue to post positive figures in the quarters going forward, which is very positive. But I know that we are going through a very operating -- very positive operating moment of the company.

And with that, I conclude my initial presentation. I'll be available to take your questions at the end. But now, I'll give the floor to Roberto to speak about our financial highlights. Thank you very much.

Roberto Belissimo Rodrigues {BIO 17269312 <GO>}

Good morning, everyone and thank you very much for joining us this morning. I will start on page three. Here, we show the performance of our stores. We inaugurated 16 stores this quarter and we should open 30 more stores until the end of the year, so as to complete the 60 stores that were in the pipeline. We saw here increasing CapEx. We are growing our total CapEx by over 60%, when compared to last year. And with the new offering, we tend to increase our investments even further. Most of the investment have been geared towards technology and also strategic planning.

On slide four, I show the performance of our quarterly revenue. It's clear here that we are growing steadily in the last four quarters. This, I think was the highest growth in the last five years over 27%. So we grew based on a larger base, when you compare to the previous quarter, we had a very positive sales performance both on brick and mortar stores, as well as e-commerce. Physical stores grew 19% in total, 15% same store sales. E-commerce also, we grew over 50%, three quarters in a row growing market share as well. E-commerce as a whole in Brazil only grew 9%, whereas we grew over 50%. And retail figures according to IBGE grew around 11% this quarter, whereas we grew 27% and that means that we had a substantial market share growth in both channels.

So on slide five, we show the performance of our gross profit. Gross profit is performing very well. Gross margin 0.8% lower when compared to the figures of last year, in keeping with the figures of the last quarter due to our significant growth on the e-commerce side. As you know, e-commerce has a lower gross margin, but this is offset by a lower expense level. And so at the end, we diluted about 1.6% on our operating expenses, I mean a reduction of 160 basis points. And so, this dilution in operating expenses had a lot to do again with the growth of e-commerce, but also growth on the brick and mortar store side. And also, this was due to the tight management of expenses and ZBB.

We were able to reduce personnel expenses and rental expenses. Our rental expenses grew very little and we were able to dilute our net expenses because we grew 27%. Equity income once again has been very consistent BRL21 million growing and net revenue growing also vis-a-vis last year, both Luizacred and Luizaseg, Luizacred grew 33%, Luizaseg grew 10% and this also contributed to our total result.

On slide six, I show the performance of EBITDA. This was the highest quarterly EBITDA in our history. Our -- the EBITDA margin grew 8.8% almost also influenced by sales growth, growth in e-commerce and dilution of operating expenses and the results from Luizacred and Luizaseg. So we went from 8% of EBITDA margin to 8.8% this quarter.

And then on slide seven, we show a significant growth of financial expenses. We were able to dilution more than two percentage points of our financial expenses going from more than 5% to less than 3% of net revenue. And without any effects coming from the follow-on, which were settled in October. So this was due mainly due to reduction in the debt position of the company in the last two years and particularly this quarter and reduction of CDI that also helped us. We were able to reduce both interest in -- in repayment of receivables and other expenses that are more related to the company's debt position, which dropped only accounting for BRL 30 million this quarter and that also tends to be even lower going further with the proceeds from the offer.

We also announced yesterday during our board meeting, we approved the prepayment of -- for debenture issue, so there is a trend that we will be able to reduce our short-term debt position and our financial position also. In the quarter, we had a lot of cash even before the offering, we had BRL1.2 billion, plus BRL1.1 billion coming from the primary offering. So with that, we will be able to reduce our debt level and to keep liquidity.

Now, speaking about working capital, once again, we made improvement in working capital KPIs. We improved inventory turnover. We were able to reduce inventory turnover by nine days. This has to do with growth in e-commerce. And once again, we have very well integrated a multichannel approach and this tends to optimize inventory turnover, especially with e-commerce, the inventory turnover is very quick.

In a year the adjusted working capital had an improvement of over BRL500 million and putting together the profitability of the operation and improvements in working capital, we were able all-in-all to reduce our net debt by over BRL700 million in the last 12 months and in the quarter, more than BRL200 million. Therefore, operating cash has been very positive. Cash along with the operations is almost BRL1 billion in 12 months and in the quarter, the figure was also quite positive meaning that we are in a very good moment both in terms of results and also in terms of cash generation.

On slide eight, we show the performance of our net income. Here, once again, we increased net income and this was not impacted by the offer, but we reached ROE of 43% and ROIC of 33% in the quarter, due to all of these operating and financial improvement.

And now, talking a bit more about Luizacred. I think, it's worth mentioning that it grew 27%, so it grew at the same pace of Magazine Luiza and the highlight goes to Luiza credit card, inside Magazine, they grew almost 58%. This is a very significant KPI showing the improvement in loyalty from customers. We also grow sales of new cards. We grew our activated base and that is the base that buys on a monthly basis. We grew frequency, average ticket and all of that had an impact on the total and overall growth of the Luizacred posting an increase of almost 27% better yet [ph] is that we are growing and at the same time reducing delinquency levels. NPL 90 days reached the lowest level in the last five years reaching 8.3% of total portfolio and short term NPL also dropped substantially to 3.1%, while -- whereas at the same time, we increased coverage ratio. And all of that shows the quality of Luizacred's credit results.

And on page 10, I show the performance of Luizacred net income on a quarterly basis showing improvements in the third quarter vis-a-vis the second quarter, when we reduce the main interest rates. We also grew our portfolio of Luizacred in CDC, I mean DCC was down and the portfolio growth was over 20% growth more than 20 million cards with all of these improvements and also return on equity was over 20% at Luizacred ROE.

And now, I'll give the floor back to Frederico for his final remarks. And after that, we will be available to take your questions. Thank you very much.

Frederico Trajano Inacio Rodrigues {BIO 17269235 <GO>}

Ladies and gentlemen, we will now initiate our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Luiz Felipe Guanais from BTG Pactual.

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

Good morning, Berto [ph]. Good morning, Frede [ph]. I would like you to elaborate a bit on the favorable environment that you mentioned regarding the economy, but I would also like to hear from you about the competitive environment not only in terms of service level because this will certainly be an important driver particularly when we talk about marketplace growth, but also if you could elaborate a little bit more on take rate and pricing?

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

Luiz Felipe, good morning and thank you for your question. My point is that I think that the favorable macroeconomic environment will be more relevant to the company's figures than any changes in the competitive scenario because I haven't seen yet any major changes and we do not anticipate any major competitive change in the months going forward. And the next quarters, I believe that the landscape will be very similar to what we've seen particularly in this last quarter. I think it will be correct to say that we should incorporate a very significant macro element especially considering the restrained consumption especially considering the first half of next year because of the World Cup and this has traditionally be -- been very relevant. So I don't see anything else significant in terms of pricing.

Our EBITDA margin performance, which is relevant to this debate was once again positive in the quarter. What we had in terms of gross margin reduction was mainly due to changes in channels, but it's been very much in keeping with the previous quarters, proving that there is no significant changes due to competitiveness and there hasn't been any impacts due to changes in pricing. And we are able to grow at very comfortable levels.

And in terms of EBITDA margins with our multichannel models, which is about the market, we grew EBITDA and we have the lowest SG&A levels in the whole history of the company. It's a very low number showing that our model is very robust to face any competition or any competitive landscape. But once again, we are always very much alert about the competition. But I reinstate my optimist with the macro landscape and with the company's business model, which in my view is a winning model both for the brick and mortar stores, as well as e-commerce growth. Today, we have models that can capture online growth with good results. And this is very, very significant and I reinstate once again my optimist especially going forward in the next quarters. And our biggest competitor, as I said in this quarter will be our -- the previous results from our own company.

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

I have another question vis-a-vis the pilot project. I mean, store pickup involving marketplace and thinking about the growth going forward, this would also involve the entire marketplace or at first this will be geared towards some specific SKUs?

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

I would like to clarify one thing, Luiz Felipe and thank you for your question. What we launched now was sales of marketplace products in the stores. So 10 Magazine's stores are selling products from 20 sellers and then we will expand that to 100% of our stores.

So they are selling the 3G product in the stores, but delivery is still being done by the sellers themselves. But as of next year, we will have a pilot for Magalu and that pilot means that the seller will deliver the product using our distribution product, so, our distribution line, but we will pilot that as of next year and the final roll out will take place throughout the year of 2019. So this is our view. So Magalu will run a pilot product next year and that's why the full roll out will be 2019.

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

Thank you very much.

Operator

Our next question is from Robert Ford from Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you and good morning, and congratulations for your results, Frede and Berto. In your press release, we see an improvement in all channels, but let's elaborate a little bit about this performance and operating improvements, please?

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

Bob, good morning and thank you for your question. I think in terms of conversion, I would like to say that, particularly speaking about the online channel, I must highlight our application, our app. We invested a lot in our mobile app in the last few years. We bet on the fact that people would migrate to using the app on mobile devices and the conversion is traditionally lower. But through this very well-orchestrated app, lower conversion and a lot of personalization using Big Data et cetera, et cetera, our mobile app was able to post higher figures, higher than expected, which is very rare, when you consider mobile apps and that's why we are able grow all of our digital channels.

In terms of physical stores, we still have issues related to supply structure [ph] et cetera. And even on the website, we were able to reduce structure, reducing inventory levels. We improve our inventory management reducing rupture. So in the internal areas that are working with supply, they are doing an exceptional work both brick and mortar stores and online and e-commerce. So and also there is better distribution of inventory and all of that is leading to improvements in our conversions.

And I would like to highlight one additional point about brick and mortar stores and that is the store pickup mode. This -- our offer in terms of store pickup is very appealing to consumers because this means that we will deliver in 24 hours with no freight cost and this applies to all stores in Brazil and the store pickup is helping the website conversion because they do not pay for freight and they can pickup their products within 48 hours. And in Brazil sometimes we have delivery issues, and so the store pickup is really helping channel conversion. I don't know whether you have anything else to add about this.

A - Eduardo Galanternick {BIO 20410320 <GO>}

This is Eduardo. I would like to also say that conversion growth is happening in many devices and also because of the mix and the conversion on devices. And the operating point of view, we have the lower structure level and this was probably due to a new system that we deployed and then this new version of multichannels that we have because of that we were able to improve inventory turnover.

The other issue is the delivery terms and with the pickup -- store pickup, we were able to make substantial improvements. We reduced the delivery term in that last mile part of it and that also helped us improve conversion. Our figures are better vis-a-vis the year before, but there is nothing substantially different. Seasonality in the market is something that is being picked up. And in terms of conversion level, this does not consider the conversion increase that is coming through the sale through Marketplace. When we include that figure, conversion is still -- is even higher.

Q - Robert Ford {BIO 1499021 <GO>}

Now, my last question. Competition is more rational. But my question is, how can that impact the -- what about the impact of Amazon entering Brazil? Do you think that there will be an impact in terms of the value proposition?

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

Bob, I think our view in terms of the business model and the pillars of our strategy remains unchanged. We believe that the best way to take advantage of that platform is through our multichannel approach given structural issues in Brazil, the brick and mortar store is what leverages our e-commerce market share, the possibility of store pickup, of store returns. So we use the same distribution mode of the store helps us.

So vis-a-vis any other competitor, we have a competitive advantage, which is very sound and we want to take that to new markets when we grow into other geographies. And we talked about the offer in our prospectus, which is very clear that we want to improve that approach. In Brazil both e-commerce and retail are the best model and the best way to grow with profitable margins is through our multichannel model. So we want to enhance it further and also add the Marketplace element. That's very important and we want to do that successfully.

Q - Robert Ford {BIO 1499021 <GO>}

And another important thing is also reverse logistics. And I think that in the long run, you will have free returns -- free returns to marketplace. Could you talk a little bit about the timeline for reverse logistics for the marketplace in Brazil?

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

Reverse logistics is a big issue here. Approximately 20% of e-commerce purchases are returned to the store for free. So the customer goes to the store, shoppable distribution center. So these are e-commerce distribution centers and this reinstate our multichannel model that we've been developing for over 17 years. We didn't start it just last year. We've been perfecting that model for 17 years.

But the thing is that now we have a larger coverage and therefore, we think it's important to expedite growth and expansion because if we focus -- we focus a lot on the digital market, but we are opening more stores because our differential is our physical presence, both in terms of reverse logistic and store pickup. And as we expand our -- the number of our stores, we will have an even greater competitive advantage to have larger coverage.

With the fulfillment by reverse logistics, we will also have more availability on 3T. We will put a lot of our efforts towards rolling out this possibility. We want our sellers to use the same distribution grid both ways and we are already using that very successfully. So everything we do for 1T, we want to also to put that available to 3T and this is one of our top priorities -- top priorities of our strategic planning and that refers to the marketplace pillars.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you, Frede -- Fred and congratulations once again.

Operator

Our next question is from Tobias Stingelin from Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning and congratulations to all of you. My first question is that I know, you give no guidance about margins, but you think that the margin should also give you more room to grow more or maybe in keeping with what you already said in previous calls, you are not looking to maximize margins above a certain level, but you're focusing more on competitiveness to make the market grow further. I think this is my first question.

And the second question still talking about Marketplace. Could you give me an update about the initiatives of this quarter. You talked a little bit about that on your press release and in the call. If you could give me maybe a summary of these initiatives, it will help me out? Thank you.

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

Thank you very much for your question. I would like to start by answering the question about the margin. The company's main focus is growth. And what is happening in terms of the margin, is that as we are growing a lot we are able to dilute our expenses. Our fixed expense rate is still very significant vis-a-vis our total expenses. It's almost half of the total expenses. So when you grow significantly above inflation and above market, you have a large power to dilute expenses. Therefore, I think that we are very optimistic because we think that we can have substantial gains in this regard.

And what we have -- what we have announced is that we wanted to invest part of this margin. And I cannot even anticipate anything, but we want to grow our services. We want to invest more in our distribution centers and invest more in logistics to be able to shorten terms. We are already ahead of competition, but we want to be -- to make further improvements and we want to make improvements in IT both marketplace and lab. We want to invest more in this digital channel, which tends to grow further in the future.

If we do not reinvest in service level, maybe the margins could grow more, but as we are investing now we shouldn't expect large increases in margin. What we expect is higher growth and also improvements in service level. The focus of the company and the driver is increased sales and increased service levels, but at the same time preserving profit -- our profit margins. But I wouldn't see large investments in growth, which would impact our margins because I think that we are now going through a positive moment in Brazil, but a few quarters from now, we will have elections coming. Therefore, I think it will be -- it will be better to keep margins because today things are good, but tomorrow we don't know, they may be bad. So we have to ensure our margins for the future rather than reducing margins following that US model to increase margin at the expense of other losses.

About Marketplace, maybe Eduardo could give -- could elaborate more on that.

A - Eduardo Galanternick {BIO 20410320 <GO>}

Throughout this year, we are delivering everything that we hoped for and in terms of the platform, we made some incremental improvement with Integra and we are growing in areas, where we needed to grow. And one important thing is the deployment of credit score to accommodate new sellers. We not only gather all of the documentation, but we are growing the business. We are trying to preserve the quality of our portfolio. And in general, we have more than 1 million SKUs with the addition of new sellers. But we don't have to -- we don't need to have 10,000 new sellers to increase SKUs.

We have to just have the best sellers, sellers that are not selling online yet, but they could sell it through us, but they have to be reliable companies. So another highlight was the launch of our advertising platforms. So our sellers can buy directly through Integra, they can buy advertising space. This was introduced at the end of August. We have more than 30,000 advertisers, sellers in the industry that are making use of our platform. And I think the best piece of news was the launch of Marketplace in the physical stores and this has good growth potential.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much. My last question, Frede. About -- I mean this quarter, you had fantastic results and I think that -- I mean, you posted strong numbers. Now in terms of bonus payment, you were doing that quarter-on-quarter. Are you taking that into account?

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

Yes, there will be no surprises in the next quarter. Fourth quarter, no surprises.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you.

Operator

Next question is from Ruben Couto from Itau BBA.

Q - Ruben Couto {BIO 19172367 <GO>}

Good morning. I think you already answered most of my questions. But if you could probably elaborate on working capital a little bit. And this level, the current level that you posted this quarter, was there any specific line that could probably have a non-recurring effect or could we just assume more stability of your working capital vis-a-vis the last 12 months?

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

Good morning, Ruben and thank you very much for the question. It is totally recurring [ph]. Every quarter -- in every quarter, we posted an evolution in a very consistent fashion, it's a trend. In fact we've been saying that this is also related to e-commerce growth. We have a much better turnover with e-commerce when compared to the rest of the market. And we are still maintaining the same purchasing terms when compared to what we have in the -- in the brick and mortar stores because we are a totally integrated company. And as all channels can sell, we potentialize inventory turnover and e-commerce benefits from purchasers on the brick and mortar stores and vice versa. And this optimizes inventory turnover, as e-commerce grows faster than brick and mortar stores. In the future, we have also to improve working capital and improve inventory turnover.

In addition to these two important things, we also managed to reduce the tax line, taxes to collect. We have a special regime, so that we will no longer pay taxes in duplicity or pay taxes twice and we were able to get more than BRL100 million a year in the last 12 months. So in the main lines of our working capital, we've been very consistent. And in terms of accounts receivable, we have credit card receivables. Basically, this quarter we were able to post a reduction in the discounts, but this is a manageable line.

What's more important is that the receivables -- I mean, the supplier funds, our inventory and as we improve that in the quarter, in the fourth quarter, seasonality will help us further. So we will see an improvement in this difference and we will generate more cash and we intend to do that from now on. And with Marketplace, we can make further improvements because of working capital, marketplace tends to be negative as well. Our working capital management position is quite positive and it tends to improve, looking forward.

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

This is Fabricio, Ruben. Our inventory management improved substantially. We decided to roll out that to all categories. The integrated inventory management helps us a lot and it helps us also because we grew sales in all of the other channels, but we improve our effectiveness [ph], in terms of distribution to the stores. Our assortment is well defined per store. We have a store defined inventory and we also manage the quality of our inventory. We have a tight management on a store-by-store basis. And so all of these three pillars helped us to have a positive inventory management and we over performed. So that 24 is store pickup helped us also and the assortment management, this helped our management approach.

Q - Ruben Couto {BIO 19172367 <GO>}

That was very clear. Thank you.

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

Thank you, Ruben.

Operator

Next question is from Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning. Good morning, Frede and Berto and thank you for taking my questions. I have two questions. We already talked about the issue of working capital and inventory. I just wanted to talk about that short-term view, we saw a significant reduction in inventory turnover and we're now getting ready for the fourth quarter because we will have two very important events in the retail industry because we have Black Friday and Christmas in the next quarter show this inventory reduction, is that aligned with any expectation vis-a-vis the fourth quarter and the sales potential to these events? Or it only reflects this efficiency gain coming from the models that you talked about before? And my second question is about CapEx. You said that you will deliver a total of 60 stores and you're spending part of your CapEx in IT. But looking forward, what should we expect in terms of IT CapEx and also at the level of store growth?

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

Good morning, Guilherme. Thank you. Let me first speak about working capital. We were able to make improvements due to operating efficiencies and all the processes that we talked about. But in nominal terms if we -- I mean, we've been growing if you look at a sequential things, inventory in September was higher than that of June, and higher than that of September of last year, but we were able to grow our revenues much more, more than the growth of inventory. Therefore, that was due to efficiency gains and improvements in the overall process. We are fully supplied. The quality of our inventory is better when compared to the levels of last year and this is the best quarter in the retail industry for sure. So we don't have to worry about that because certainly, we are well stocked and well prepared for next quarter.

Now, in terms of CapEx in the future, we don't give CapEx guidance. But what I can say is that we use the proceeds -- we have the proceeds from the follow-on and in that offer, we explained 60% of the primary offer will be used to increase investments, including investments in IT, logistics, new stores and the refurbishing of the stores and the remaining 40% will be used to reduce the debt position of the company. And we just announced, the reduction of approximately BRL600 million in debentures that should take place this quarter and this will reduce the debt.

Now speaking about CapEx, we will invest in the next three years. We already said that that we increased the pace of inaugurations, this year is proof of that. We should open 60 stores when compared to an average of 20 to 25 stores that were opened in the last five years. So then we will cover half of the population, but we still have room to open new stores.

And now most of our CapEx as we saw in previous years, CapEx will be geared towards IT and logistics because as we open more stores, we should also open more distribution centers that should be closer to our consumers and because of e-commerce as well. And nowadays, almost half of CapEx is being spent with IT to support the growth from e-commerce, growth for marketplace, and to support all of the new projects in our multichannels that are part of our digital transformation process. Thank you.

Q - Guilherme Assis {BIO 16143141 <GO>}

Just about the growth in the stores, so then you've increased the pace of opening and now you're opening 60 stores. Is this a sustainable pace in your view for the next three to five years, this level of store openings?

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

Guilherme, when you talked about 60 is that because we said that we cannot comment, but we got additional funding to expedite investment and that also includes the opening of new stores. So we want to expedite the opening stores. I cannot give you any specific guidance about that at the moment.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you.

Operator

Next question from Maria Paula Cantusio from BB [ph] Investimentos.

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

Good morning. Congratulations for your results. Thank you for taking my question. I would like to get a little bit more detail about the digital platform in the stores and you said that the sales rep can issue the installment card. And how are you proceeding in terms of credit analysis, whether that can also be done by the sales rep and how can -- how will that impact competition?

And my second question is about growth and same store sales growth of 15% in the quarter. Could you elaborate more on that? We also noticed that the virtual stores are growing above average vis-a-vis regular stores. Could you tell me in what regions this growth was more significant?

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

Good morning, Maria Paula. Here is Marcelo Ferreira from Luizacred. I will elaborate a little bit about the digitalization and the store and credit. Credit is something very important when it comes to sales at Magazine Luiza and customer experience will be highly improved. We have a DCC digital as Fred said and we were able to get great improvements in approval time. And most importantly, we have an integration between the credit system and the sales system of the store.

Next step is the card. Today, we already have a process that we call credit (inaudible), where the sales rep already identifies what customers have preapproved credit and therefore, there is more assertiveness when it comes to approving credit. But we have to have a separate approach to approve the credit cards, but next year, this process will be totally integrated with the sale and it will be seamless and much better than the process we have today. So we are very excited with this new approach that will bring more customers on board with a much better customer experience. So for next year, this new approach will be available in all of our stores.

Let me add one more point. We already launched a pilot process. As I said next year, we will have the roll out of the product. We have already a pilot for that installment book and we will -- we are about to launch the pilot for the Luizacard, but the strategy remains the same using the credit score and what is easier now is the fact that the sales rep can do that himself. So the process is -- ran really quickly. The feeling for the customer is not of deniable -- denial say that I tried, but I didn't get it. He will get a much quicker answer and the customer experience is much better. And so, we hope to assist all customers with that customer approval.

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

Good morning, Maria Paula, this is Fabricio. To answer your question about growth, our store growth was very robust and we grew very well in all regions. We grew above two digits. In the northeast, the performance was slightly better. And the highlight in the quarter came from the virtual stores, which posted significant growth. So we grew well in all regions and in all types of stores.

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

And could you tell us what kind of stores you will be opening or there will be just virtual stores and in what regions?

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

This is Frederico. Our priority, I mean, we still have 17 states that out of the 27 states of the country that we are not yet present. We are not going to announce, where we will enter now, but already mapped several cities and potential districts in current cities, where we are present. We opened up many virtual stores in cities up to 50,000 people, but it will depend on our criteria. So we have to look at rental versus revenue, the investment amount, the type of municipality.

So I can't say right now, whether it would be 50% virtual and 50% conventional because it will depend on our modeling, but we already mapped several potential geographies for both virtual and conventional stores. And as soon as we can solve the financial equation, we are looking at the rental amount vis-a-vis the size of the municipality, then we will have a better idea. But we open a lot of virtual and conventional stores and we will continue to open those without any particular thing in mind.

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

So congratulations again, and thank you for your answer.

Operator

Next question from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. Most of my questions have been already answered. But could you tell me how much of your sale is being picked up at the store. I didn't find any numbers, but I thought your initiatives were quite interesting especially because now you want to expand that to Marketplace. And along the lines of the same question, what is your idea and I understand that's another project that you will pilot in 2018 and roll out in 2019, but where, I mean in your mind, where you would keep the inventory in your 3T platform would -- is that -- will that be in your DCs or maybe part of that will be more ad hoc once the order is placed?

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

Irma, could you please repeat the second part of your question because it wasn't very clear.

Q - Irma Sgarz {BIO 15190838 <GO>}

The second part of my question is where in your fulfilment model by Magalu, where would you keep the inventory for the Marketplace seller. Do you intend to have the Marketplace seller inventory in your own distribution center or maybe part of the inventory will be there, which would incur in a higher inventory turnover?

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

Okay. Now, it's clear. On your last point, we believe that the seller inventory could be in any distribution center of the company. Today, we have 10, tomorrow we will have more. And certainly there is a plan to open new DCs going forward and so the seller will choose a distribution center if that makes more sense to them. And in the future, we -- it may even be out of the store, we are converting 30% of store space into storage area to accommodate e-commerce in the future for 3T as well and that's why we are calling our stores shoppable distribution centers. So we will invest in refurbishing of our stores to use 30% of the stores both virtual and conventional stores, and this 30% additional space will operate as called the docking points to also accommodate high turnover products.

It only makes sense to accommodate high turnover products and then -- and the rest of the products will be accommodated in the other 10 DCs, and also in the 800 stores that will probably accommodated in the future as well. So this is our view, but we still have a lot of room to grow and to accommodate things in the future. But as of next year, we will already use that option. I would like to remind you that it only make sense to be in the store, those products that have a high turnover and not the less relevant products.

Now, about the store pickup system, we are still discussing the most adequate methodology to come up with that number. From everything we sell online, 20% is picked up at the store. So this is our current KPI for all products. I am saying that from a 100% of our revenue of our sales, 20% is store pickup. I mean, this number will grow substantially because it already grew 250% this year alone from the first quarter to the third quarter, and this in our view is one of our major differentials, but there is still -- it's still difficult to detect the KPIs. I mean from everything we sell online 20% is picked up at the store.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you. It's very clear. Thank you very much.

Operator

We now conclude our Q&A session. I would like to give the floor back to Mr. Frederico Trajano for his final remarks. You may proceed, sir.

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

Once again, I would like to thank you very much for participating and I would like to thank our investors, old investors and new investors that joined us after the follow-on. So thank you very much for being with us. I once again, reinstate my optimism, vis-a-vis the next quarters, given a more favorable macro landscape and an excellent execution phase of the company. And I know there are some difficult comparisons looking forward, but I am very optimistic in terms of our macro landscape, and I would like to thank everyone from our team for producing a seventh positive quarter and I hope that we will continue performing well. Good morning everyone and once again, thank you.

Operator

Magazine Luiza's conference call is now concluded. Thank you very much for participating and have a good day.