

Q3 2011 Earnings Call

Company Participants

- Francois Bloquiau, IRO

Other Participants

- Irma Sgarz, Analyst
- Joao Mamede, Analyst
- Juliana Rozenbaum, Analyst
- Philippe Lagayette, Analyst
- Ricardo Boiati, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Thank you for standing by. Welcome to B2W conference call to announce the results of the earning release of the Third Quarter of 2011 and the first nine months of 2011. Today with us we have Mr. Francois Bloquiau, B2W's investor relations officer. And Mr. Murilo Correa, investor relations officer of Lojas Americanas. This conference call is being recorded and all participants will be connected in listen-only mode during the Company's presentation.

Then we will start a Q&A session, when further instructions will be provided for you to participate. (Operator Instructions) The audio of this event will be available for replay right after this ends for one week. You should also be reminded that today's event has a support presentation available at www.b2winc.com.

Before proceeding, we would like to clarify that any forward-looking statements made during this conference call regarding B2W's business outlook, projections, operational and financial targets are mere beliefs and assumptions of the Company's management and are based on information currently available. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions because they refer to future events. And therefore depend on circumstances that may or may not happen.

Investors should be aware that general economic conditions, industry conditions. And other operational factors may affect the future performance of B2W and therefore, may lead to results that are materially different from those expressed in such forward-looking statements. Now we would like to turn it over to master -- to Mr. -- to our speaker who is going to start the presentation. Please, Mr. Bloquiau you may start.

Francois Bloquiau {BIO 17267717 <GO>}

Good afternoon, ladies and gentlemen. First of all, I would like to thank you all for your attendance in our conference call to announce the results of the Third Quarter and the first nine months of 2011. B2W, a leading company in electronic commerce in Brazil was formed from the merger between Americanas.com and Submarino.

And currently has a portfolio with the branch Americanas.com, Submarino Shoptime, B2W Viagens, Ingressino.com, Submarino Finance, Blockbuster Online, MesaExpress.com. And SouBarato.com which offer more than 35 categories of products and services through the following distribution channels, internet, telesales, catalog sales, TV channel. And kiosk.

As to the Third Quarter of 2011, we consider that the results that we are going to present do not reflect the expectations of the Company. According to our strategic plan, the funds we raised through the capital increase are being invested in our logistics system, in the distribution chain and in a technological platform aiming to offer to our customers the best service level possible. However, we noted that the result has been poor in sight of our expectations.

Both our growth and the profitability depend on the change to a higher level of customer service, which is the first priority of B2W. Moreover, the current results reflect a more aggressive commercial strategy of pricing with discounts and trade policies that have a negative impact on our profitability. Moreover, we adopted conservative measures in terms of delivery times that limited sales growth so as to provide better services to our customers.

In spite of the challenges that we dealt with, we'll fall short from the results that we wanted with the changes in process, then the creation of new operational dynamics in the companies. We assure that we are on the right path. The results of the Company will come as our service levels go back to the excellent level that we want. Now, we are going to start our presentation from slide three.

On slide three, you can see the main highlights of the first nine months of 2011. In this period, important results have been reached, of which we highlight. Net revenue reached BRL3,055.5 million in consolidated and BRL2,792.2 million in a controlling company. SG&A have reached BRL472.4 million in a consolidated, 15.5% of the net revenue. Same level as the year before.

The Company has signed a funding contract FINEM, with BNDES in a total amount of BRL439 million. B2W has launched the website SouBarato.com thereby, creating an important channel for the sale of outlet products. Submarino has offered the Atomica delivery service with deliveries on the same day to the city of Sao Paulo. Submarino Card has 34% share in the sales of the website Submarino, reaching 680 thousand cards issued.

On slide number four, you can see evolution of the net revenue. The consolidated net revenue of the first nine months has reached BRL3,055.5 million with a 4.6% growth in contrast with a BRL2,921.7 million in the first nine months of 2010. The net revenue of the controlling company has reached BRL2,792.2 million in the first nine months of 2011 in contrast with a BRL2,739.4 million in the same period of 2010 with a growth of 1.9%.

On slide number five, we'll be talking about SG&A. In the first nine months of 2011, the expenses with sales, general expenses, administrative expenses, all consolidated have totaled BRL472.4 million which represents 15.5% of the net revenue. The same level as we had in the same period last year.

Now on slide six, we'll be talking about the enterprise funding contract. On October 3rd, 2011, the Company's board of directors has approved the signature of the venture or enterprise funding contract FINEM with the BNDES, the National Bank for the Economic and Social Development the total amount of BRL439 million.

On slide number seven, we'll be talking about the launch of the website SouBarato.com. B2W launched the website SouBarato.com, thereby creating an important channel for the sale of outlet products. So without a box revising perfect functioning states with guarantee or still with special discounts. This new website is also accessible through the website Americanas.com.

Now on slide eight, we'll be talking about Atomica delivery service. Always seeking to improve the purchasing experience of our customers, Submarino is now offering this Atomica service, Atomica delivery service for deliveries that take place on the same day in the city of Sao Paulo with a differentiated service to our customers.

On slide number nine, we'll be talking about investment and innovation. Along the first nine months of 2011, B2W invested a total of BRL280.8 million. These investments were concentrated especially in logistics operations and technology fronts. B2W has been constantly investing in the optimization of its logistics system as a way to offer to its customers, an excellent service level.

Along the year, we installed new pieces of equipment and completed different construction works in our distribution centers thereby, increasing automation level which reduced the time for delivery of goods and errors due to human failure.

We also installed new systems to meet the new tax and legal requirements. Another important area for investments is the development of a new service system that will provide or make it possible for B2W to operate much more efficiently and assertively.

Following its path of innovation, B2W continues investing on new functionalities with the main objective of improving the purchasing experience, increasing the conversion rate and reinforce the position of its brands. Along the year, 80 projects were implemented overall, involving from improvements in the technological platform to new functionalities.

Among those projects we highlight the change in the browsing system of the three sites. B2W has reformulated the searching system in its websites Americanas.com, Submarino. And Shoptime. Services are now more assertive and focusing more on the relevance and popularity of each item.

We launched the QR Code platform in platform. Submarino has now launched an innovative way for customers to have access of exclusive offers with the scanning of a special bar code through the cell phone camera, it provides access to Submarino promotions. And with one click shopping at Shoptime after implementing the fastest shopping tool of the internet in Americanas.com, in Submarino. And Ingresso.com.

Now the time has come for Shoptime to offer the convenience and speed with one click shopping. Pilot of Submarino on Demand, VOD. Submarino has launched Submarino on Demand in beta version which provides or makes it possible for its customers to watch movies and series on the internet without any interruptions through the streaming technology launched on Submarino's store in Facebook.

In trying to meet the changes that took place in the digital scenario, Submarino has expanded its presence in social networks through a new concept implementing a virtual shop in one of the leading relationship websites in the world.

Launch of the self-service in Shoptime. Shoptime now has a self-service offering the customer the choice of canceling orders using vouchers, change goods. And much more in a rapid and simple way with the convenience that only B2W can offer. Android application at Ingresso.com.

Ingresso.com has created an application that has made it even easier to buy movie tickets. With it, customers may check the programming of the leading movie theater networks, buy tickets, reserve seats with more convenience straight from the smart phone tablet with Android operational system. Then beginning of the mobile operation of B2W Viagens. B2W Viagens is now saying -- selling air tickets and packages in mobile platforms for the three brands Americana.com Viagens, Submarino Viagens. And Shoptime Viagens.

On slide 10 we'll talk about the highlights from our subsidiaries, Ingresso.com. Ingresso.com following its expansion plans, continues to increase its presence in other countries. It's now present in 284 movie theaters in Mexico, 108 in Chile. And 83 in Argentina, through a partnership with Cinemark.

The Company continues to prospect new countries to replicate its business model. In Brazil, Ingresso.com keeps on growing vigorously, driven by the sales tickets for Blockbuster movies, seats with the reserved seats. And the increasing number of movies shown on 3D. And also presence in large events such as the sales of tickets to Rock in Rio.

Ingresso.com has also been investing in improvements in order to increase comfort and convenience for its clients such as the launch of an iPhone app and also portable devices

with Android operating system and the adoption of the express cashier that makes the purchasing process even faster.

B2W travel operations continue with higher growth rates as influenced by the investments we've made. In addition to this, we continue investing in innovation in quality of service, offering the best service in three brands, Submarino Viagens, Americanas.com Viagens. And Shoptime Viagens.

Submarino finance, our participation in our own card in sales has increased gradually reaching 34% in the total sales of Submarino in September 2011. Currently, Submarino's finance has a basis of over 680 thousand issued cards. Blockbuster online, with the largest collections of DVD and Blu-ray titles in Brazil, Blockbuster Online continues expand its operations, now are offering services to the federal district and in addition to this, it's consolidating its presence in the states of Sao Paulo, Rio de Janeiro, Minas Gerais, Parana, Santa Catarina and Rio Grande do Sul.

Moving on to slide 11, we would like to re-stress our perspective and priorities for the coming quarters. Our strategy at B2W is always to improve our competitive position in the Brazilian retail market. This is achieved through raising the quality of service to our customers growth and sales and operating cash generation through the continuous improvement of our operations.

Capturing operational synergies and competitive advantages as a result of the integration of channels Americanas.com, Submarino. And Shoptime. Increase in our business volume at the subsidiaries Ingresso.com, B2W Viagens. And Submarino Finance. Technology updating and innovation for all of our business units and the search for a higher level of operational efficiency and logistic efficiency.

Skills training for our associates so that they can overcome the challenges that will present themselves in our growth trajectory. Increase in our client base, the active client base, increase in the frequency of shopping of our customers. Innovation and new internet businesses. With this, we close the disclosure of results for the Third Quarter and the first nine months of 2011. We thank you all for your kind attention and we will continue with the Q&A.

Questions And Answers

Operator

Thank you. So much ladies and gentlemen. We will now begin our Q&A session. So that all of the participants may submit their questions, we kindly request that you be brief in your comments. (Operator Instructions) Our first question comes from Mr. Philippe Lagayette from JPMorgan.

Q - Philippe Lagayette {BIO 1440648 <GO>}

Good afternoon, Francois. Good afternoon everyone. Francois, in your opinion, what went wrong in the Third Quarter and what are you correcting so that in the future when we look not to the Fourth Quarter. But further ahead to 2012, what improvements can be made?

You had some problems, in fact at the end of last year you had a problem with deliveries. More recently, the consumer protection agency requested that the site be suspended for 72 hours, then you filed an appeal. So what is the timing or the time line that you need to address all of these issues and resume B2W's operations and restore it to what we expected, or what we were used to? You know until 2010.

A - Francois Bloquiau {BIO 17267717 <GO>}

Well thank you so much for your question. Well you asked about the consumer protection agency. We would like to clarify that, as everyone knows, at the end of the year there were some -- there was some turbulence with deliveries. And ever since then, the Company has not -- has worked as hard as it can to improve deliveries. Additionally, we're making considerable investments. High investments were made and we continue -- continuing to invest. And we have made some significant progress already.

This has enabled us to bring down the number of complaints in comparison to what were recorded in the First Quarter. The average complaint rate dropped by 30% if we compare the second to the first half of the year and this is the result of the considerable investments we have made and all of the hard work we have invested. But this doesn't mean we will stop there.

We will continue to make significant investments and will be able to see the results in the following quarter. We are not satisfied with the Third Quarter results, we are disappointed it was far below our expectations, we consider it as bad results. And what went wrong, I think this is the main question.

The problem is that we had to adapt to this situation giving priority to customer service and also meeting the delivery times we had agreed to and in addition to this, we had to balance other variables in our commercial prepositions such as freight, or sometimes exempting freight charges so that we could keep growing. We didn't want sales to go down, this is what we had to do to provide that and also, we also had to keep up with the market.

The level of competition in the market is still very intense, our competitors agree to this view. And they all share the same diagnosis. So we have to keep up with this. And in addition to this, well you know, since people are being more aggressive, we have to be more aggressive. The results were not satisfying because sales didn't grow and the margin did not reach the levels we had been expecting. This is what went wrong in Third Quarter.

Now, in order to improve this picture, as we manage to get positive results before deliveries and operations, when we once again can offer delivery times that are in line with the market, we will naturally have an alignment with the offer that we make in the future, of course will be aggressive. But more in line with what we need in terms of cost.

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And like this, we will be able to grow profitably again. And of course, we believe that our customers like free delivery and we also offer this to our customers whenever possible. But we also like to offer different shaded services such as better delivery times and more reliability.

Today our priority is this. And we believe this is very important in order to revert the picture. For example we have Entrega Atomica, or Atomica delivery service that we are once again offering Sao Paulo. I think this really provides us an edge, we are completely and fully committed to the customer. We deliver on the same day after approval from the credit card operator. And more importantly, is to provide a differentiated service. And this is what we want for the future. This is -- this is what we believe went wrong in this period.

Q - Philippe Lagayette {BIO 1440648 <GO>}

And Francois, do you have any expectation in terms of when you go -- you will be able to have delivery times more similar to the market? Is there a CapEx that you are going -- your going to do now, or by 2011 so that it goes back to normal?

A - Francois Bloquiau {BIO 17267717 <GO>}

Well our intention is to offer as fast as possible, competitive pricing. But something that is very important along this path is how sure we are that we will be able to meet the delivery time that we agree with our customers. So if we offer, with full safety, shorter times or times that are shorter than those that we offer on the website, we will do that for sure.

However, we won't run the risk of saying or advertising delivery times that we won't be able to meet afterwards. Our expectations is that by 2012, we will be able to have really competitive delivery times with full safety and confidence and we'll be sure that we'll be able to meet those times.

Q - Philippe Lagayette {BIO 1440648 <GO>}

Another question Francois, when you look about your indebtedness in cash positions, considering that you have already made some significant investments in April, do you feel okay and confident that in 2012 you won't issue any other debts or any primary captures, or -- are you okay with your cash position right now? So what can you say to us about your net indebtedness from now up to 12 months?

A - Francois Bloquiau {BIO 17267717 <GO>}

Well we are absolutely confident with our cash levels and indebtedness levels in terms of capital for us to have the expected results and effect with this regard, we are completely confident about that.

Q - Philippe Lagayette {BIO 1440648 <GO>}

Thank you very much Francois.

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Excuse me, our next question comes from Juliana Rozenbaum from Itau BBA.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Hello. Good afternoon. I still have one question. I think that in this quarter, you were very aggressive in pricing and gross margin and trade. And even so, in spite of all of that, consumers were still worried about deliveries and didn't come back. What do you think will bring your customers back, will make them trust again your site and buy again from you? And along the same line, if you consider Americanas and Submarino is -- are they the same or have both brands have been equally hurt, one suffered more than the other?

A - Francois Bloquiau {BIO 17267717 <GO>}

Juliana, thank you for the participation. Consumers will come back when we start offering more competitive times. When we look at the behavior on the internet and we study it very closely, consumers who are at home and order a product, they are expecting to receive it very shortly. Brazilian consumers are used to that, which is good. And the way of the delivery time offered by the website really effects their perception. And when they decide to buy from one website or another one.

That's why this pricing issue has effected all three brands overall. So when we start to have a conservative policy for B2W, those three websites have been equally impacted. Because this a uniform behavior of customers in terms of delivery times. So they will come back when delivery times are competitive again. So they might come back just because of pricing, because of more discounts, free freight, well that won't work.

They will only come back once we offer delivery times that agree with the market and that we can meet. Today our delivery times are too long and when we are able to offer shorter delivery times again, we are sure that our customers will come back. Once they come back, our margins will improve, we'll have a better balance amongst our available. And we are also going to have growth in sales. What we can see. And this is important, is that consumers haven't left us.

They're still going to our site, our brands are still the ones with the highest awareness in the markets. We have very strong markets, very frequent visits by customers on the websites. The issues that will they really buy or not from us. But we are so confident that -- so soon as we solve this problem, they will come back and shop and buy from us. So even though those consumers that go to the end and once they see how many days for delivery. And then they give up. They just don't buy on the last screen of the purchase.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

How much was this percentage, two years ago and how much is it now?

A - Francois Bloquiau {BIO 17267717 <GO>}

I'm sorry, we cannot disclose this information. What I can tell you, is that they bought less frequently from us because of the delivery times that we offer. Actually, we don't study just

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the last set that you're describing, we monitor the whole navigation on the website. Where they're going, which pages they're going, when they give up.

Depending on the profile of the customer, the type of product, also depending on where they live, they will give up a different step. It's not just on the last step. It's much more complete than just not closing at the end of the shopping cart. It's more complex than that. But overall, our diagnosis of the study, step by step when we study the behavior of customers, the longer delivery time has had a negative impact on us.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

If you allow me one last question, this new website, is it managed by the same distribution center? Is it a separate structure? Is it your own inventory? Partner companies? What's the type of growth margin since it's very focused on discounts?

A - Francois Bloquiau {BIO 17267717 <GO>}

Well SouBarato.com is a very interesting initiate. It's something new in the market. SO the technical part is fully integrated to our inventory. There's specific products, not just third parties or partners. The growth margin, we have a business plan that I can't share with you now. But our growth margin is also interesting and I think that we have a very interesting initiate here and we'll probably be the driver of great growth in the future.

It's a new interesting concept in the internet. But the fact that us having an outlet that is integrated to our brands, obviously makes it possible for us, we have these products, we know that they are -- that they are products that you can trust in, they're good products. And so this is an outlet, this website, it's a project that really exciting, we are really excited about it.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Even in spite of all your operational challenges and all the difficulties you're dealing with, you're sure that you can make it move ahead? The system is ready, you won't have more problems in other phase of rupture coming from another initiative? Don't you think it's too much for you to handle now?

A - Francois Bloquiau {BIO 17267717 <GO>}

Well as I've said along this presentation, our top priority is customer service, quality of the operation. So considering this is number one priority, launching a novelty without being 100% sure that it works, wait to be sure that it won't cause any problems in terms of ruptures, inventory, we would always go for the second option which is to wait until we are 100% sure that we can have a perfect quality in operation.

The Company is integrated and this -- we launched the operation because we saw that it works seamlessly. It's still small, which is good because in this manor we can control and test and make sure there are no problems. Yes. We are sure that as this operation grows, we won't have any problems. This is totally in line with the vision we have today of quality.

I think that e-commerce in Brazil. And our operations more particularly, depends on us reaching that level of quality that is high.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Thank you, thank you.

A - Francois Bloquiau {BIO 17267717 <GO>}

Thank you.

Operator

Excuse me, your next question comes from Ricardo Boiati from Bradesco BBI.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Good morning, to all listeners. I'm sorry for insisting on the same matter that previous questions addressed. But considering the logistic problems and customer service issues, these have been affecting the Company for some time now. And we are under -- we were under the impression that the issues had already been solved. But on the Third Quarter, the Company had to adopt a more aggressive strategy and sales responded very weakly.

So I would like to know about the current status of the Company, for how long we'll see this aggressive policy with sluggish from sales. And how long will it take so that you can offer differentiated time of -- time of delivery and differentiated service that will drive sales up again in contrast with what happened in the Third Quarter?

A - Francois Bloquiau {BIO 17267717 <GO>}

Thank you for your question. Well we have addressed this issue. This is very important. We had problems this was widely announced in the market, we addressed the problems. And we will continue to have very positive results. Of course we still have a lot to do and we are being very cautious with our measures because we don't want to go too fast and start promising what we cannot offer.

So we are doing the best we can, of course with a sense of urgency. But very calmly so to make sure that the problems will not repeat themselves. But we are addressing the issues. Now, about your question, when are we going to go back to good operations? I think the sooner the better and I believe that in 2012, we'll go back to the level that we aspire to.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Well if I may follow up on the market and B2W's position vis-a-vis the market. Of course I know you're making several course corrections, you're addressing the issues and there's the matter of transition. But when you compare your operations to the market. And you have been witnessing -- haven't been witnessing acceleration in the market and what is the level of service of your competitors in comparison to you?

Do you think that you're far superior? So that you know, will the customers migrate to a competitor's platform, or is it about a discount of 5% or 2%, or -- or the more aggressive discounts, or the better delivery service. How do you compare yourself to the market and the competitors?

A - Francois Bloquiau {BIO 17267717 <GO>}

Well about the competition, what I can say without naming names, because this is something we don't do. Of course we keep our eyes plugged on the competition. We know that the competitors offer strong discounts on the spot. They also have payment with or without interest that are very aggressive. And we adopted an aggressive policy in the Third Quarter to fix up the competition. And not going to pass judgment on the level of service provided by the competitors.

What's important for us is to provide our customers with the best level of service and I can say that the competitors are now offering more aggressive delivery times. We want to match what's being offered in the market. But with better quality from B2W. Now, we don't comment on the performance of our competitors obviously because it's not something under our jurisdiction. I can talk about the things we are doing well. This is worth addressing. But I cannot talk about that.

Q - Ricardo Boiati {BIO 16528742 <GO>}

And what about the market? Do you see the market picking up relevantly or?

A - Francois Bloquiau {BIO 17267717 <GO>}

No. We don't see anything exceptional in the horizon. I think things will continue as they are.

Operator

Excuse me, our next question is from Mr. Tobias Stingelin from Santander Bank.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Good afternoon, Francois. Can we go back to the previous question, because we are talking a lot about delivery times, delivery times, delivery times. And we don't understand why we cannot offer the best delivery times. Of course maybe, it's a problem related to your size and scope. Of course this adds complexity to your operations. And I know that you don't want to talk about the competitors. But in your view does the market -- will the market be able to deliver what you expect or are you making the same mistake as in 2010 and you're -- you know, lowering your prices trying to solve your problems.

A - Francois Bloquiau {BIO 17267717 <GO>}

Thank you for the participation. I think you've touched a key point which is size. I mentioned, well with a catalog of 700 thousand items and deliveries throughout Brazil and with the sales on them we have, this all represents a challenge. You know, it's

exciting. But at the same time it's daunting. So you know, if you consider the tax issues, the operational issues, logistics, everything is complicated.

There's several technical issues that we have to overcome. We operate on a multichannel base distributing products to different regions of Brazil with 35 categories. Therefore, our diversity and dimensions makes our operations to become very complex and that's why we had those problems in 2010. Now whether the market will fulfill its promise, I'm not going to talk about the market, I'll talk about -- we don't know if they will deliver on the promise. But this is a challenge that will keep growing.

Once you start growing as a company and offer more reach in terms of categories or even in the number of orders handled a day and we were one of the first to face this problem that other e-commerce sites all over the world will face when they talk about this to American operators, well, they had to go through the states at a certain time, they had reached a certain size or a certain level of categories therefore the diversification and they had the problem of added complexity. So we are sparing no effort to overcome this challenge and all of our friends in the market are facing the same. And they will sooner or later.

Q - Tobias Stingelin {BIO 1557190 <GO>}

But Francois, doesn't it mean on the other hand that the market is still to concentrated and you have about 70% to 80% of your mix in electronics, you have such a huge portfolio you're proud of, of course. I know that you want to go long tail. You want to deliver in four or five days. But, it is not so bad. It would be only you offering these delivery times. But the problem is that you're still concentrated on electronic products, you know where the fight is fiercer. Is that -- am I going in the right way interpreting this?

A - Francois Bloquiau {BIO 17267717 <GO>}

Well we don't talk about the concentration in our mix of products. There are some categories that are very irrelevant to us. But inside the same category you have some products that are very -- have a very short life cycle for example. If you look at electronics or computers, or even cell phones, they have a very short cycle in the market. So in the same category, sometimes you'll find products that go in and out of fashion.

The best selling TV, the best selling computer, you know sometimes this changes in barely six months and you have to keep up with the evolution of technology in this market and this is something we have as a problem. But sometimes the diversity expresses itself not only in the number of items. But in the launch of new models and the way they renew themselves. So we also have to take this into account.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Well why, subsidiaries are becoming more relevant. They have accounted for 25% in the last results. But the way I calculated your margins went down 2,300 or 23percentage points. How do you explain that?

A - Francois Bloquiau {BIO 17267717 <GO>}

You're talking about the gross margins?

Q - Tobias Stingelin {BIO 1557190 <GO>}

No. I'm talking about the subsidiary growth margin that represents 20% of EBITDA. Well if you make the calculation, you reach a drop of 23% in the margin of subsidiaries. So well I didn't know there was so much -- volatility in this business, you know tickets, et cetera.

A - Francois Bloquiau {BIO 17267717 <GO>}

Actually, I don't really see it that way. This concept of gross margin, if you consider the variety, the diversity of our business gross margin sometimes ends up being, we monitor the EBITDA much more than the gross margin because if we look at the growth margin for travel, if it's something really different -- the concept of a gross margin is completely different. I don't even know what is gross margin for a financial institute.

So this, I would really need to look that in detail, what happens to the gross margin to give you more accurate numbers. And to tell you what actually happened. Usually for the subsidiaries. And as one would look, the main indicators of growth and EBITDA, it's -- we see the opposite. We see a growth of revenues. And a growth of EBITDA. So we are doing very well with that regard, Tobias.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you.

A - Francois Bloquiau {BIO 17267717 <GO>}

Well I'll get back to you once I've analyzed the numbers more preciously.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Did you change your auditors?

A - Francois Bloquiau {BIO 17267717 <GO>}

Well actually, changing the auditors is actually a decision that came from Lojas Americanas. Lojas Americanas made that decision and as we are controlled by Lojas Americanas, we had to change it too. It was a decision which for us, came from the top. And naturally, two companies as big as ours, one is consolidated into the other, we need to have the same auditors. So because of the growth.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Because -- is it because there was a mistake in statements last year?

A - Francois Bloquiau {BIO 17267717 <GO>}

No, B2W had nothing to do with this decision.

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Q - Tobias Stingelin {BIO 1557190 <GO>}

Why is it, it dropped BRL50 million in the report last year and the report this year, why is there this discrepancy?

A - Francois Bloquiau {BIO 17267717 <GO>}

Tobias, I'm not aware of this information. I would need to check.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Well I took last year press release reported in IFRS and I found a difference of BRL50 million. So it's different, it's two different.

A - Francois Bloquiau {BIO 17267717 <GO>}

Well I need to look at the numbers in more detail. We did a restatement in IFRS -- for the Third Quarter in IFRS in the beginning of this year. There may have been some confusion there and we can very rapidly clarify that.

Operator

Excuse me, our next question comes from Mr. Joao Mamede from BTG Pactual.

Q - Joao Mamede {BIO 15265292 <GO>}

Good morning, Francois, most of my questions have already been answered and I have just one last point. Now there's Christmas ahead and your service levels still really fall short from the ideal. I know you have implemented many improvements. You have very high CapEx this year with that aim. But you haven't done 100% of it yet. Is there any risk that this year end might not be the same as last year with some instability? So what do you see for the year end?

A - Francois Bloquiau {BIO 17267717 <GO>}

Good morning. And thank you for your participation. We are ready for Christmas. This is a very important period for us in retail and for B2W. We are preparing for -- getting ready to have a Christmas that is much better this year than last year. We are working towards that, we are doing our best and making all our efforts. What we need is to progressively offer better delivery times, with full certainty that we will fulfill those delivery times.

So on Christmas we don't want any of our customers to deal with the same types of the delays and problems that they dealt with last year. We are ready. And we are going to have a great Christmas.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you very much Francois. That's all, thank you.

Operator

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Excuse me, our next question comes from Ms. Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. So going back to the answers to expenses. How do you see other operational expenses? What's the outlook for 2012 in the press release is says that these expenses are still related to delivery problems at the end of 2010. Can you give us more detail? So there were some differences along the Second Quarter, could you give us more detail what is in that line in the Third Quarter and how do you see year end and 2012. And the other question, Submarino Finance has now reached a total participation in Submarino of one third of the sales, how are you doing in terms of break even?

A - Francois Bloquiau {BIO 17267717 <GO>}

Irma, thank you for your participation. Good afternoon. As to other nonoperational expenses, those are expenses that are nonrecurring. So they're related to the delivery problems we had in late 2010. They're basically expenses related to resend products to customers who didn't get the products, lawyer fees. And indemnity paid to customers. It's important for you to bear in mind, is that we don't need to solve those problems immediately.

Only a long time with impact on service levels, operations, legal. When that happens, we immediately account, or book those costs. But it takes awhile to really spend those. So there is a negative impact this quarter. But it's an impact that's gone down significantly from the second to the Third Quarter 2011. The strong trends of falling -- of -- will continue. So they are nonrecurring expenses that are related to problems that took place at a given time. And naturally this will go down and down until we finalize all the solutions for those problems.

That's just Submarino Finance, Submarino Finance actually, has one third of its search [ph] the breakeven point, we have already reached that and we are expecting to have quite interesting results in the future. I think that this is an operation that is helping significantly sales, that is helping also to build loyalty with our customers, differentiated customers. And that's just what we want to do now. And their operating with profitability and so there are advantages for operations.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you very much

A - Francois Bloquiau {BIO 17267717 <GO>}

Thank you.

Operator

Excuse me, we've now ended our Q&A session. I would like to turn it back over to Mr. Francois Bloquiau for his final considerations.

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A - Francois Bloquiau {BIO 17267717 <GO>}

I thank you all for your attendance to our conference call and webcast. I take the opportunity to invite you to visit the websites of Americanas.com, Submarino. And Shoptime that have offers you can't miss in more than 30 categories of products. There you will be able to enjoy our offers. And to shop for Christmas.

And do not fail to use our website for travel tickets, movie rentals. And restaurant reservation. All of this with a convenience, facility. And safety that only B2W can offer. Moreover, our investor relations team is available to answer any additional questions you may have. Thank you, all very much. And have a good afternoon.

Operator

B2W conference call has now ended. We thank you all for your participation and have a good afternoon. Thank you.

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