

## Q3 2014 Earnings Call

### Company Participants

- Frederico Trajano Inacio, Chief Operations Officer
- Marcelo Jose Ferreira e Silva, Chief Executive Officer
- Roberto Bellissimo Rodrigues, Chief Financial Officer and Investor Relations Officer
- Unidentified Speaker

### Other Participants

- Guilherme Assis, Analyst
- Renata Coutinho, Analyst
- Unidentified Participant

### Presentation

#### Operator

(Starts Abruptly) quarter of 2014. For your information, this event is being recorded and all participants will be in listen-only mode during the company's presentation. After the presentation, we will initiate the Q&A session when further instructions will be provided. (Operator Instructions) The replay of this event will be available after it is concluded for a period of one week.

We would like to stress that any statement made during this call related to the business outlook of Magazine Luiza, projections, financial and operating goals are based on beliefs and assumptions from the management of the company, as well as information currently available in the market. Future considerations are no guarantee of performance because they involve risks, uncertainties and assumptions and therefore depend on circumstances that may or may not occur.

Investors must understand that general economic conditions, conditions of the industry and other operating factors may have affect the future performance of Magazine Luiza and may lead to results that differ completely from those expressed in such future considerations.

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

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

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Good afternoon, everyone, and thank you very much for participating in our conference call on the results for the third quarter of 2014. I would like to begin by talking about the net income of the company, which reached a growth of 66% to 42 million in the third quarter. And this comes from two major factors, the first was the growth of our revenue by 18% in the third quarter and I would also like to highlight the growth of same-store sales, which had an increase of 15.5%, this was above the average when compared to the market.

E-commerce has had a more impacting share, we had an increase of total (Technical Difficulty) materials and it's also worth mentioning, the growth of our e-commerce coming from a policy of multi-channels where now we have, we are one single company. We share the same processes, the same distribution centers, all of the distribution centers of the company are operating online and offline through all of the multi-channels. Therefore, I must say that we were very fortunate in all of our promotional campaigns this year with a World Cup and contrary to what people believe that after the World Cup or during it, we would have a negative impact, but for us, we had a very successful sales.

We also had other promotions to our customers. Therefore, I must say that there was just a combination of factors that led us to have a very positive third quarter, a very successful third quarter, but what makes us more confident is that consistent of these results, because they've been consistently in increasing.

Before I give the floor to our CFO, Roberto, I would like to (Technical Difficulty) both in SG&A as well. Equity income increased also and accounts for 1% of our net revenues partially due to our good results for Luizacred occurred. And this is also posted high profitable margins for the past two consecutive years with delinquency levels very low.

Next page, on page five, we show EBITDA, the EBITDA performance. We have 7.4% during the quarter and accumulated 6.1% over net revenue. We also see an increased performance from last year to this year from 7.1% to -- 6.1% to 7.4% due to expense reductions and also due to the results of our investments in the DCC or Direct credit to consumer.

Now, next page, page six, I'll show you our financial results. Financial expenses went from 58 million to 89 million from an increase is related to credit card discounts, which increased mainly due increases in sales, because sales increased significantly also increase in credit cards sales, with a slight change in the mix and also due to CDI which also in increase vis-a-vis percentage [ph] of last year.

We continue to reduce our net debt, this half year we reduced our net debt and this reduced our leverage both if you compared to June or also September of last year and part of that is due to improvements in our working capital in this half of the year. We had an improvements in inventory turns and also the average purchase in terms or payment terms because as I said before, we had the effect of the world cup.

Next page, page seven, I'll show you net income. Now we are 89 million in this quarter, we had our highest return on equity about 23%.

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And on page eight, I have a few figures for the Luizacred and the Luizacred revenue continues to grow specially in regard (Technical Difficulty) so with our regard would be hope to increase the profitability of the company, we are about to inaugurate 29 new stores in October. We already inaugurated 13 for Louveira, also in Sao Paulo so we hope to have 23 new stores in this last quarter of the year.

We are very confident and the industry as a whole and particularly our company, we are all very confident in the company. Next week, we will see that all of our managers to talk about the next initiative for the end of the year. We will lead our target, and we've been reaching the target along the years we've been beating all of the targets, even though Brazil had low GDP growth that we were able to grow approximately 16% on an annual basis and we will continue to work to experience double digit growth.

But this is the focus and the target that refers to all of our employees in the company. So, we believe that 2014 will be one of the best years in the history of the company, both in terms of growth sales and also EBITDA margins and net income of the company.

And now, I would like to conclude the presentation. I'll leave the floor open to take the questions from you. Thank you very much.

## Questions And Answers

### Operator

Now, we will initiate the Q&A session only for investors and analysts. Questions that will come through the web will be answered later on by email, and we will be available to take your questions if they arise. (inaudible) from Bradesco Bank has a first question.

### Q - Unidentified Participant

Good afternoon, everyone. My question relates to expenses, I just want to understand, whether this expense dilution which you posted in your third quarter is fairly related to very strong top line growth or whether there was something one-off, there was one-off or something very specific that contributed to the improvement of that line both in a commercial expenses and sales expenses and G&A expenses. My second question is about e-commerce, we have seen you have very strong growth rates for e-commerce and its gaining momentum in the overall results of the company. Do you have any particular outlook for that division in the company or whether you think in terms of opening up the results from e-commerce giving the significance that this business is gaining in the overall results of the company?

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

Good afternoon Ricardo, [ph] and thank you for your question. This is Roberto speaking, I would initiate my answer with the expense part of your question. In fact this dilution is a consequence of two things. We have sales growth which is very important and this has helped us to reduce expenses. But also, we must consider our enormous efforts to

maintain expenses on the fixed price and also variable expenses at the lowest possible level.

The difference between sales expenses was very large, which indicates the fixed expenses do not grow as much this quarter. This also includes investments in marketing and we started investing in marketing since early this year and was maintaining this investment and this has helped us grow in terms of sales and to grow the brand. But we are also working with other expenses such as logistics with the integration and our valid [ph] DCs and web sales that are also being delivered by all of our DCs and also fixed expenses from the stores and so these corporate expenses like expenses from our main office are being reduced. Therefore what I'm saying is that, we have been diluted all expenses across the board and did also, we are trying to contain expenses as much as possible.

Now, I'll give the floor to Fred, so he can talk a bit more about e-Commerce.

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

Good afternoon, Ricardo, and thank you for your questions. In fact in the last quarters and even throughout the last few years, we've been consistently experience a very fast growth of our e-commerce, e-commerce activity we have the very distinctive operation model. We work with players in the market and peer players and we've been growing both market growth, consistently quarter-on-quarter, year-on-year in the last -- about six years, it was 35%, this year, we grew 39% on e-commerce. So e-commerce is gaining momentum, its' becoming more relevant in the company, and I think the beauty of our model is that even though we're becoming more relevant the company as a whole increases it's EBITDA and net income margins and that provides the major differential our model is so good in the top line of e-commerce and it's also good in terms of the contribution it gets through the overall margins of the company. In fact, this is something that only Magazine Luiza has been able to deliver.

Now, in terms of giving further opening of the figures [ph] of e-commerce, this is a decision that can only be made at a board levels. Today, some things are being discussed at the board, but nothing has been decided yet in terms of e-commerce.

### **Q - Unidentified Participant**

Okay, thank you very much.

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

I would say that, to relevance of the e-commerce as a growth should ultimately coming to that that this is not yet the time -- it's not yet the time to open it up the way you were referring to. I know, this would really helpful from Fred's comment, we know that operation is very profitable and it helps the company as a whole. And I think, this is the information that I was looking for now.

### **Operator**

Our next question is from Guilherme Assis from Brasil Plural.

### **Q - Guilherme Assis** {BIO 16143141 <GO>}

Good afternoon, everyone, and thank you for accommodating my question. I just want to understand, especially along the lines of Marcelo's final remarks. He talked about some projects to improve inventory turn in pricing. I just want to learn more about what the project entitled than what we could expect from the projects and when we could expect the projects to impact your operations.

And my second question relates to the dilution of marketing expenses, I understand that the company is doing a lot of efforts in that marketing arena. You did that for the World Cup and for next year, I know that you will (inaudible) that package with global television, but we haven't seen any changes, any significant changes in that line. How much of that is impacted by vendors and what should we expect from now on, in terms of marketing? Thank you.

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

The first question about inventory management in pricing, I would like to (Technical Difficulty) be posted amounts from losses or provision from losses, but potential losses in therefore -- the value of P&L is very much adequate to the portfolio that is in the balance sheet, but what is coming down -- what's coming down are almost the P&L expenses. And why is that coming down?

Because our credit portfolio is better. So, we don't need all that provision for loan losses for the risk associated to the balance sheet, so it's coming down because of the reasons that you mentioned, because the risk or things are better now even because now our credit granting is better, we're being more conservative. So with all of those things put together brings [ph] less risk throughout the balance sheet.

### **Q - Unidentified Participant**

But, how much longer do you think this will continue? I know is that expenses with P&L are coming down whereas the coverage ratio is also very stable. But if I look at the delinquency levels, the overdue payments between 15 to 90 days, I mean, and essentially this was up by 30 basis points. And I know that the market is very cautious, income levels are not growing as much as they were earlier during the year, so there is a certain level of caution in that consumer credit. So how do you manage or how do you see that the allowance for loan losses portfolios performing next year?

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

In our credit operation, every week, we look at the delinquency indicators, the delinquency KPIs are very stable. We look overdue above 15-90. There is a downward trend, you look at the overdue 15-90 days, and you see that there has been a decline. If you look at the numbers, that overdue 15 to 90 days was down and this is a very positive indicators showing that. I mean, because from 15 to 90, I mean, the lower overdue will be in the future. So, we do not need a lot of provision from losses.

But, in addition, we are very positive, because we are now controlling the new credit lines. We are very conservative in terms of granting new credit, granting new loans. And this is a

way of protect yourself from future occurrences in the market as a whole.

## Q - Unidentified Participant

Thank you.

## Operator

Our next question is from Renata Coutinho from Citibank.

## Q - Renata Coutinho {BIO 15400037 <GO>}

Good afternoon, and thank you for accommodating my questions. I have one question now about the conservative position in terms of credit granting. I've seen an impact on sales vis-a-vis the first half of the year. Do you see any reflection on the sales of merchandises maybe those conservative position should probably a fracture figures in the future?

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

This conservative approach, it has been a long since 2011, and it was just increasing year-on-year. So we do not believe that this was the limiting factor in terms of our results, because despite that we've been growing double digits above the market average. Macroeconomically speaking you know that only problems related to unemployment where we people not to pay if they were granted loan, this is because they deserve that and we don't see the possibility, macro economically speaking of any major problems caused by unemployment, that's why all of the outlook or the provisions that we do both of (inaudible) there is a trend which follow the same criteria.

I don't think there will be any changes or whether there would be any impact on our sales because of that.

## Q - Renata Coutinho {BIO 15400037 <GO>}

You're not losing new clients that could apply for them the first purchase?

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

In the first purchase, we are very regular. That's when we may encounter problems that those are already said -- that already with us, we already know how they perform, but for new clients, we are more conservative. But this is not a factor there is a (inaudible).

## A - Unidentified Speaker

Renata, let me just say one thing. We have more active clients in our Luiza credit portfolio, that's why our credit card line is growing that's also important to mention that growth of the active customer base is very important and this has helped also to grow our credit card portfolio as a whole, the active spaces growing. And we were able to grow in this quarter, I mean, we already had a conservative approach and we were able to grow this quarter as well.

**Q - Renata Coutinho** {BIO 15400037 <GO>}

Congratulations. Congratulations.

**A - Unidentified Speaker**

Thank you, Renata.

**Operator**

(Operator Instructions) Our next question comes from Guilherme Assis from Brasil Plural.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Just a follow-up question. When you talk about margins and opening up stores, we think that you expedited your store opening in the third quarter and then, I think in the fourth quarter, you would in-force that even further, should we expect any impact coming from the opening of the stores in your margins and whether there was also an impact on the third quarter, after you deliver like 20 stores during the quarter? And how will be those dynamics and what should we expect for the next quarter?

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

We shouldn't see any impact on the fourth quarter, because it's a very short period of time and there is not enough time to experience that impact in the second half of the year. And even in the first half with the World Cup, we were concerned whether there will be a problem during the World Cup, but that didn't happen. Pre-operating expenses are very minimal, even for accounting reasons, we appropriate almost everything in our CapEx.

Therefore, this will not impact our results either sales, year end sales. Many stores will be inaugurated in November, particularly in the northeast. Therefore, I must say that this will not impact the company as a whole, the overall results. We have (inaudible) we even put it as when we -- we haven't been doing EBITDA adjustments because these are almost irrelevant expenses in this quarter that was 1.1 million and 600,000 of expenses that weren't [ph] and things like that before the inauguration of the store. But, it's not that significant.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

How about your sales the fact that this level of expenditure, should we expect that to be slightly higher in the fourth quarter?

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

You were talking about pre-operational?

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Yes.

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

I believe that in November, all the stores will be inaugurated and then this time, we'll go to operating expenses. Yeah, but considering the whole picture, this will be amount of irrelevant expenses.

**Q - Unidentified Participant**

Fine. Thank you very much.

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

Thank you, Guilherme.

**Operator**

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

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

Thank you all very much for joining us during this conference call. I would just like to reinstate that we're very confident with the last quarter and we are getting ready for 2015 as well. We will have several events coming very soon like Black Friday and Christmas campaign, all of these are very good opportunities for us at Magazine Luiza. And we will then have our Liquidacao Fantastica in January. We will have a very robust results much better than that of last year. Last year, we've had good results, but this year, we will post even better results.

All in all, we are doing -- what we've said, we were doing, and the company is prepared from now on to present increasing results, gradual increases and very consistent growth. So let's wait until we go through the fourth quarter and we will see how the year ended, but we're very confident that you will all be very pleased both the company and investors. Thank you, and I hope to see you again.

**Operator**

Thank you very much. Magazine Luiza's conference call on the third quarter of 2014 is now concluded. You can now disconnect. Thank you very much and have a nice afternoon.

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