



# Magazine Luiza

**Marcelo Silva**  
**CEO**

May 2015



# Magazine Luiza

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Opportunities and Multichannel

Magazine Luiza

Outlook and Financials

# Magazine Luiza

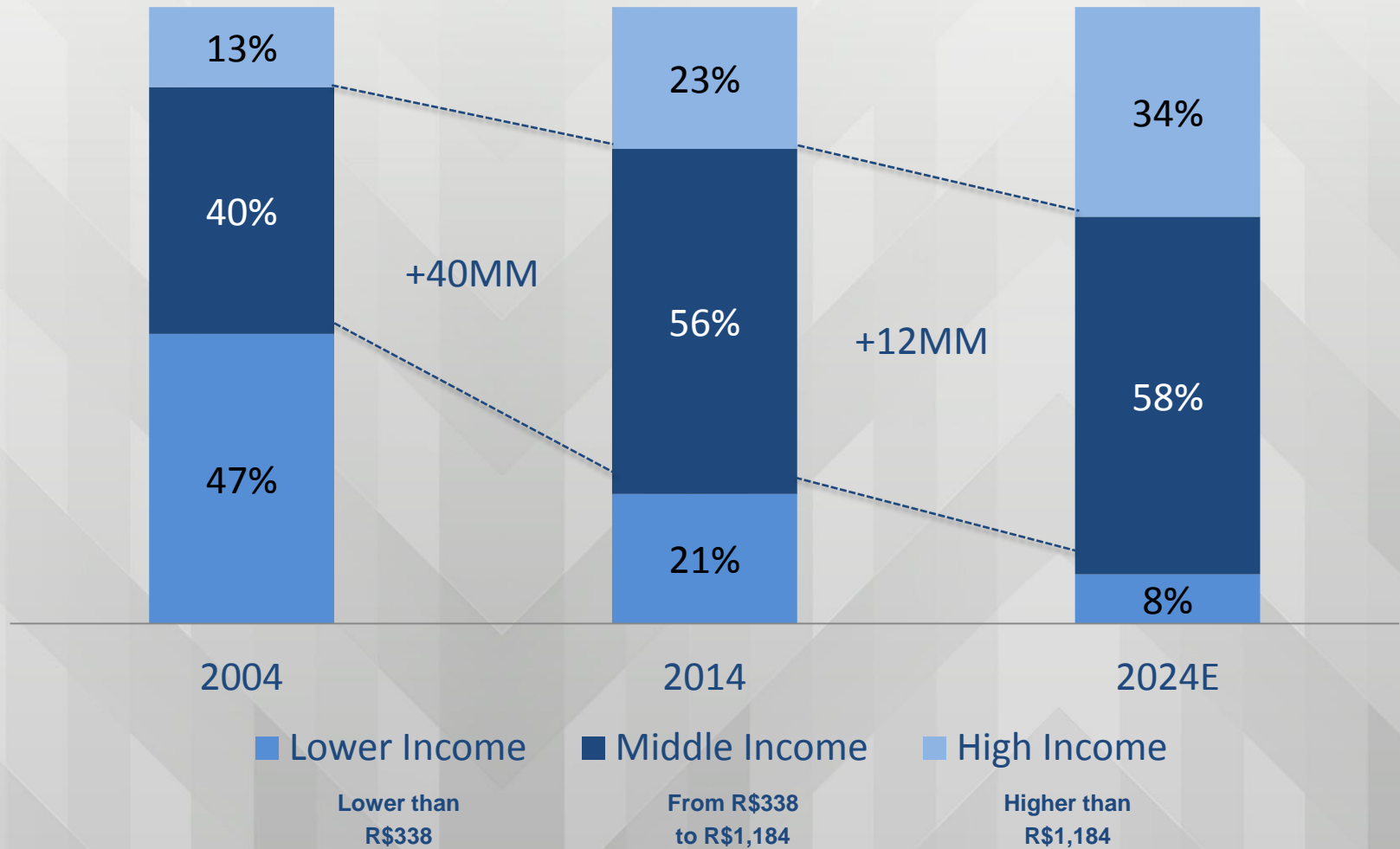
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**Opportunities and Multichannel**

Magazine Luiza

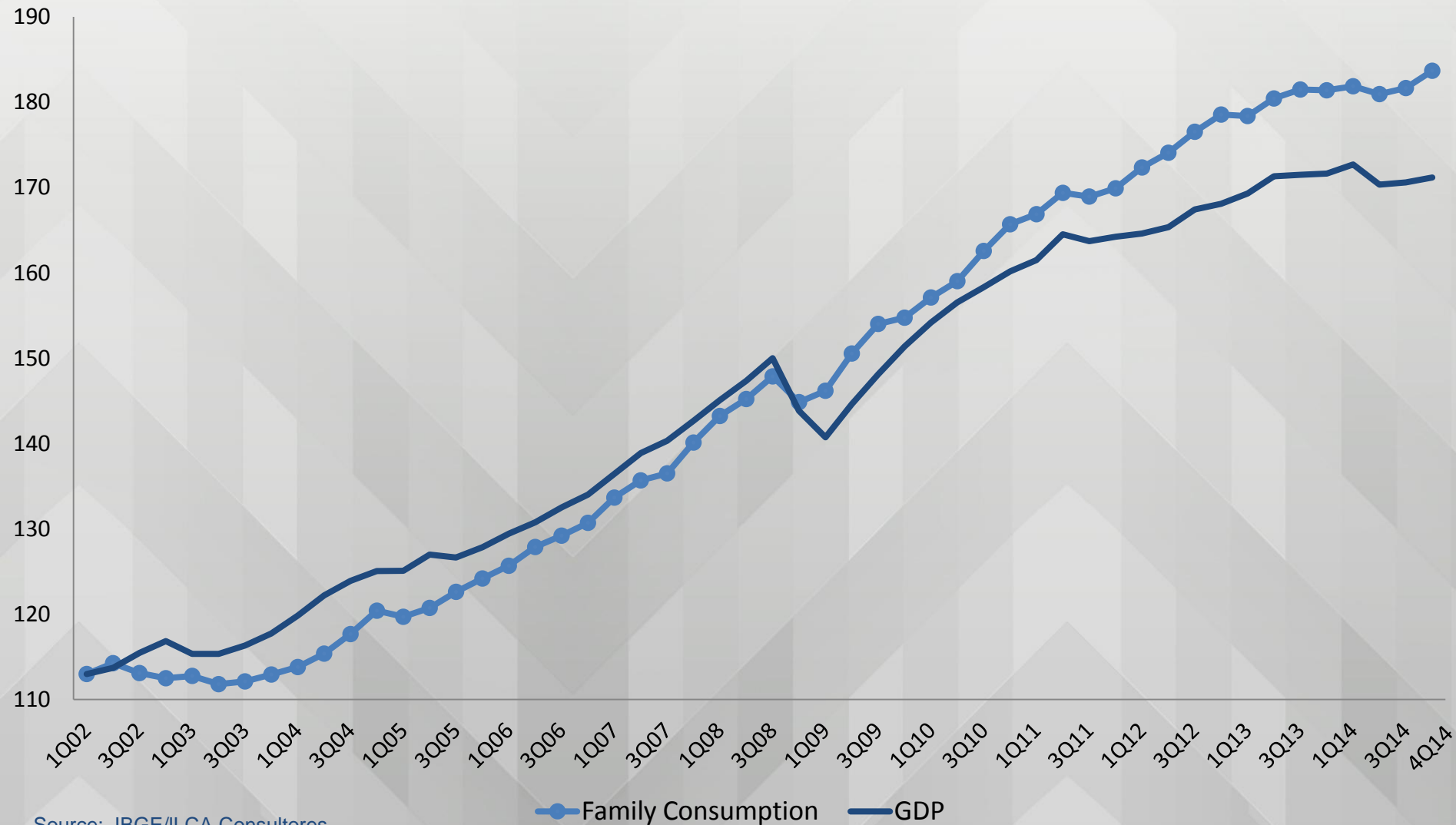
Outlook and Financials

# Brazil's middle class is bigger now...



# ...with consumption growing faster than GDP

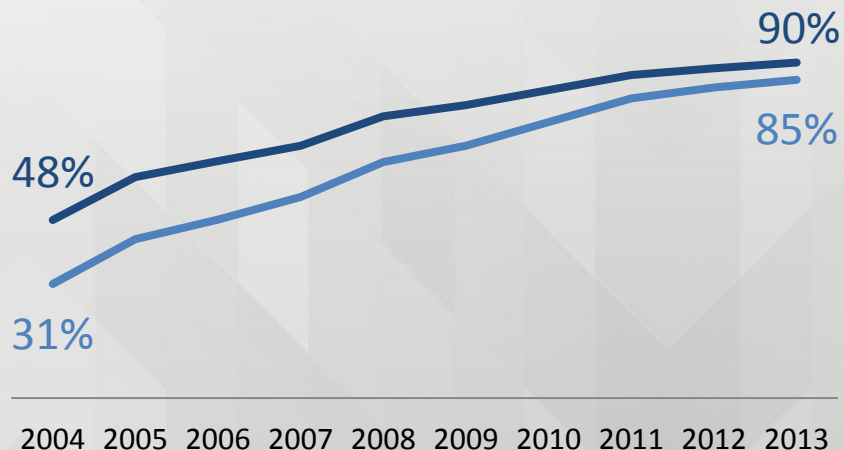
(1995=100)



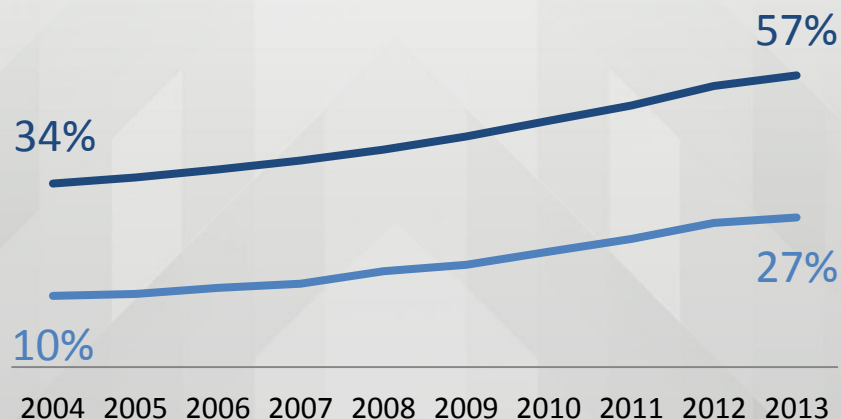
Source: IBGE/LCA Consultores

# Product penetration: NE opportunity gap

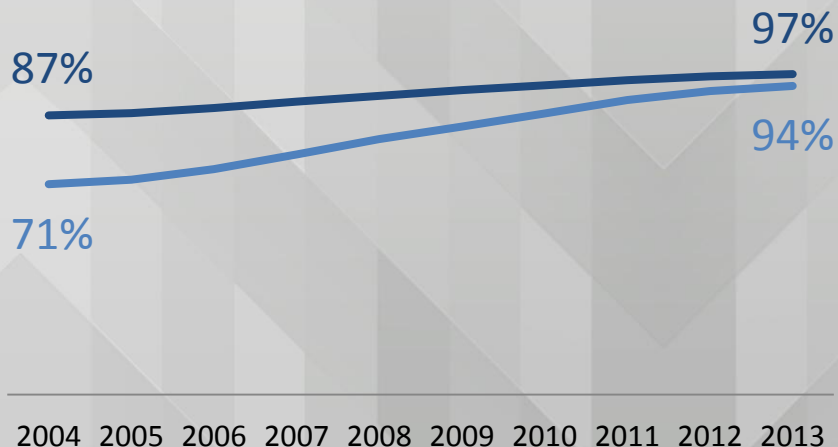
## Mobile phones



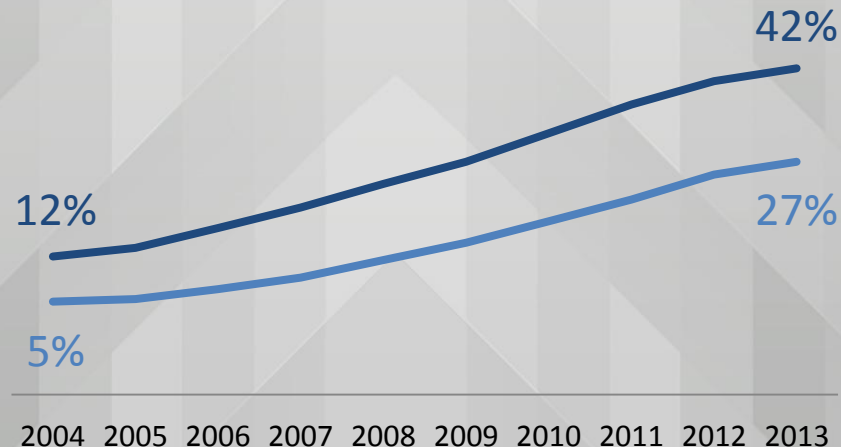
## Washing machines



## Refrigerator

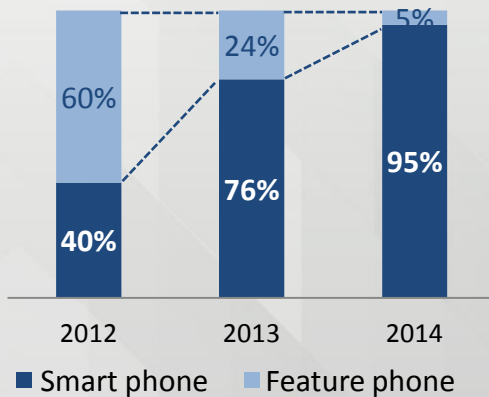


## Internet computer

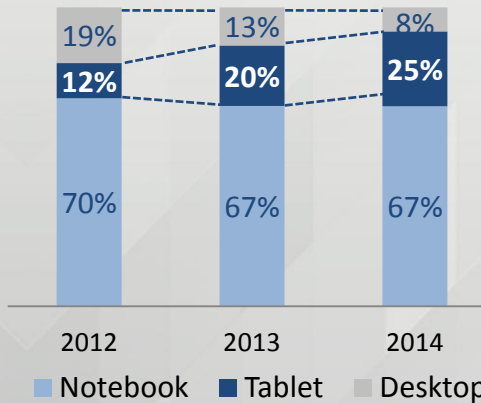


# Consumption upgrade opportunity

## Feature x Smartphone



## Notebook x Tablet x Desktop



## TECHNOLOGY

**Smartphones:** currently 94% of all mobile phones sold are smartphones

**Computers:** tablets are gaining share from desktops

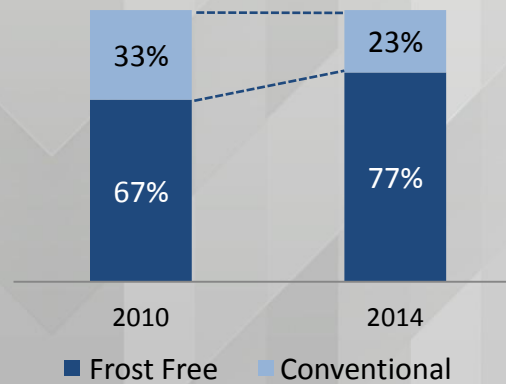
## WHITE & BROWN GOODS

**Refrigerators:** frost free line becomes more relevant

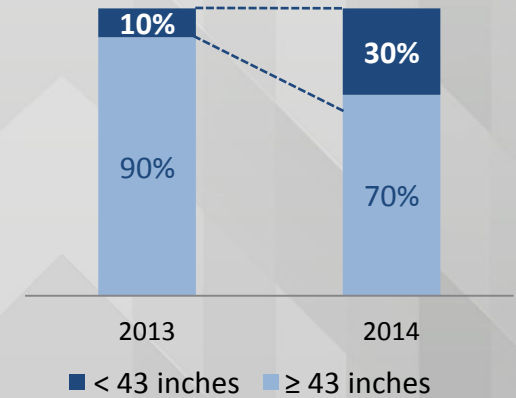
**Smart TV:** market grew 15% in 2014 vs ML growth of 100%

**Plasma TV:** market grew 240% in 2014 vs. ML growth of 430%

## Refrigerators



## TVs



# Our footprint

**Total clients: 39 million**



## Stores

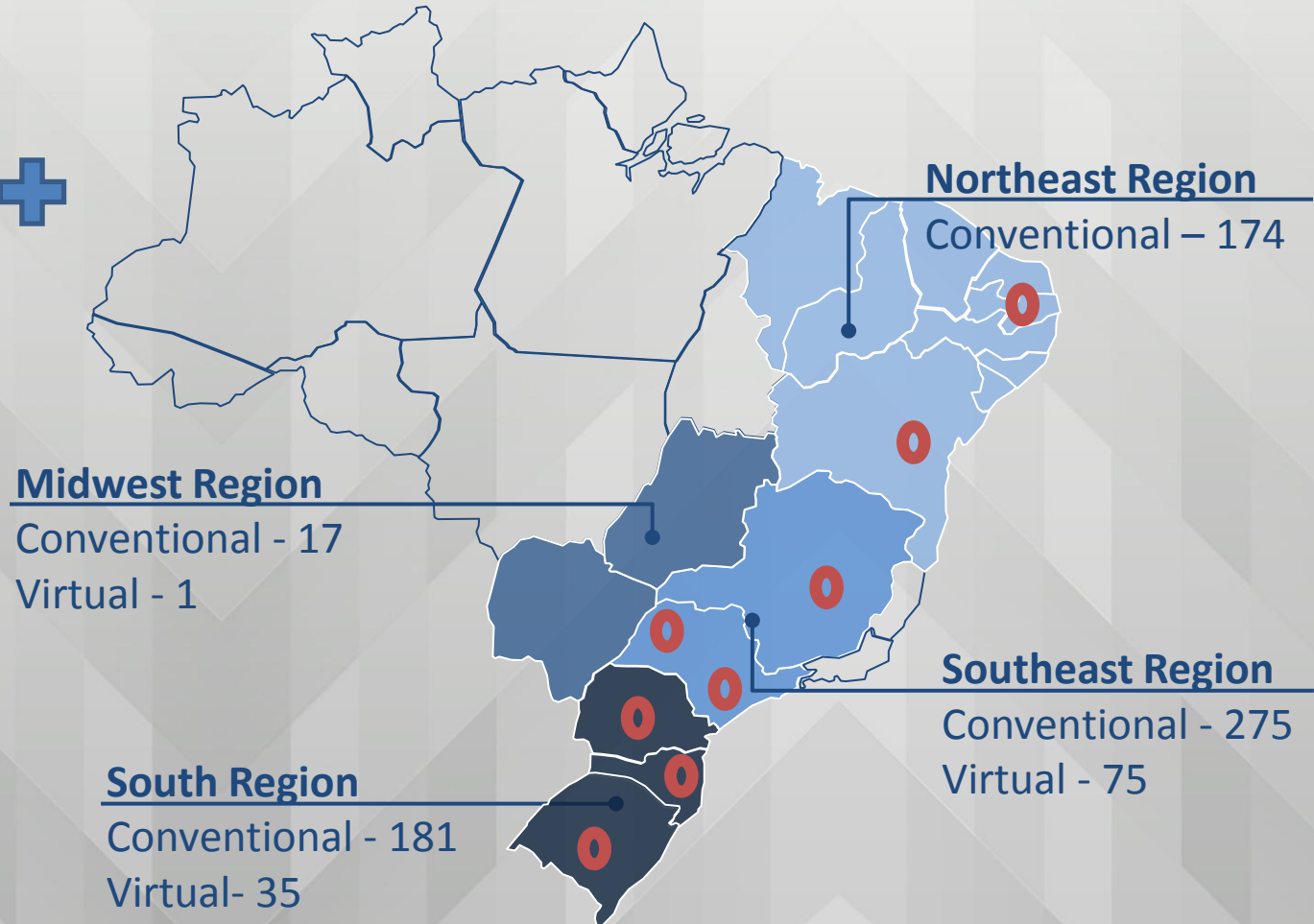
Total (stores+ site):  
759

2014 openings:  
24

In maturation:  
~41%

At malls:  
<10%

Virtual stores as %  
of total: 15%

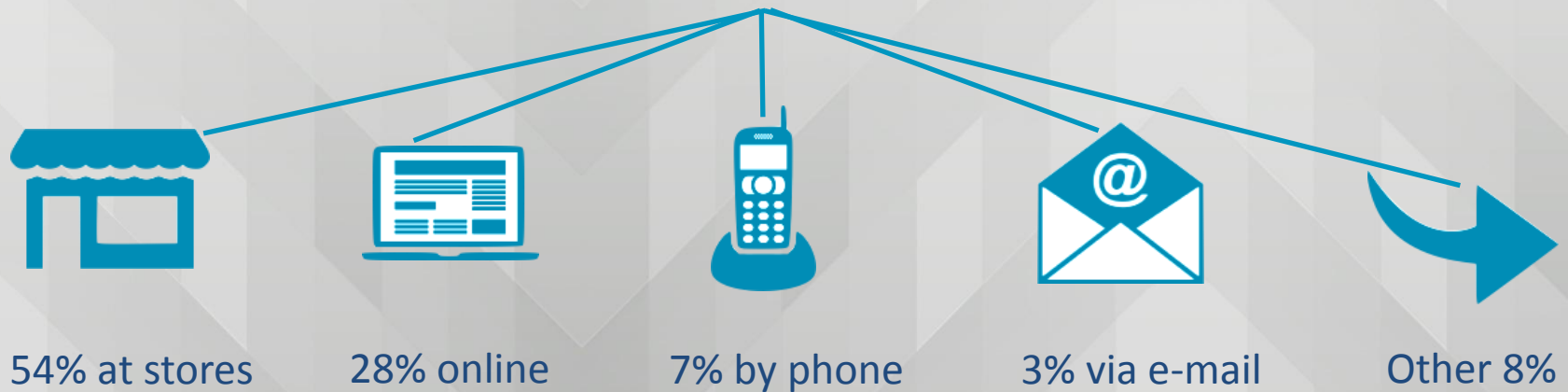




# Omnichannel client

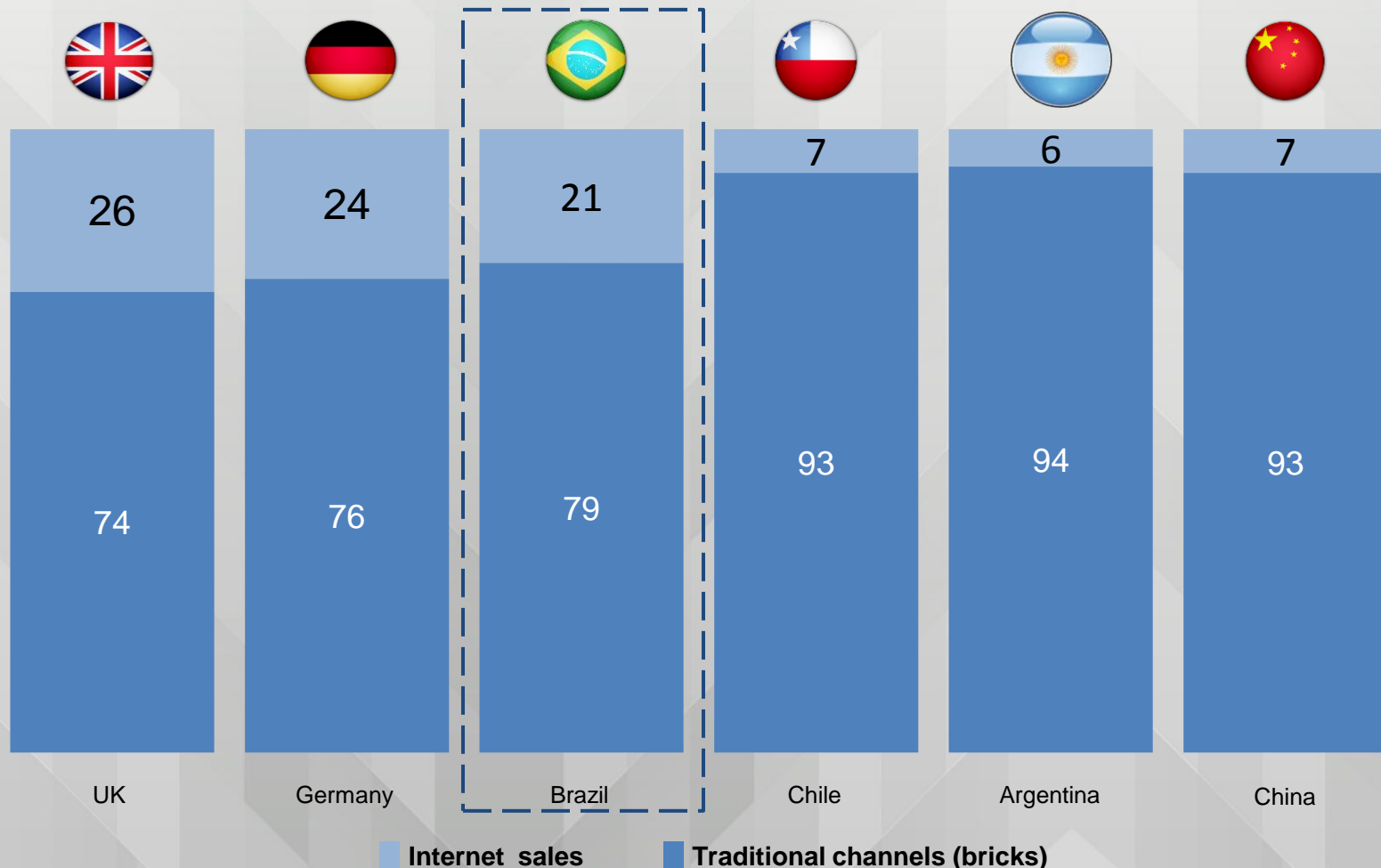
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Where people completed their purchases after searching online?



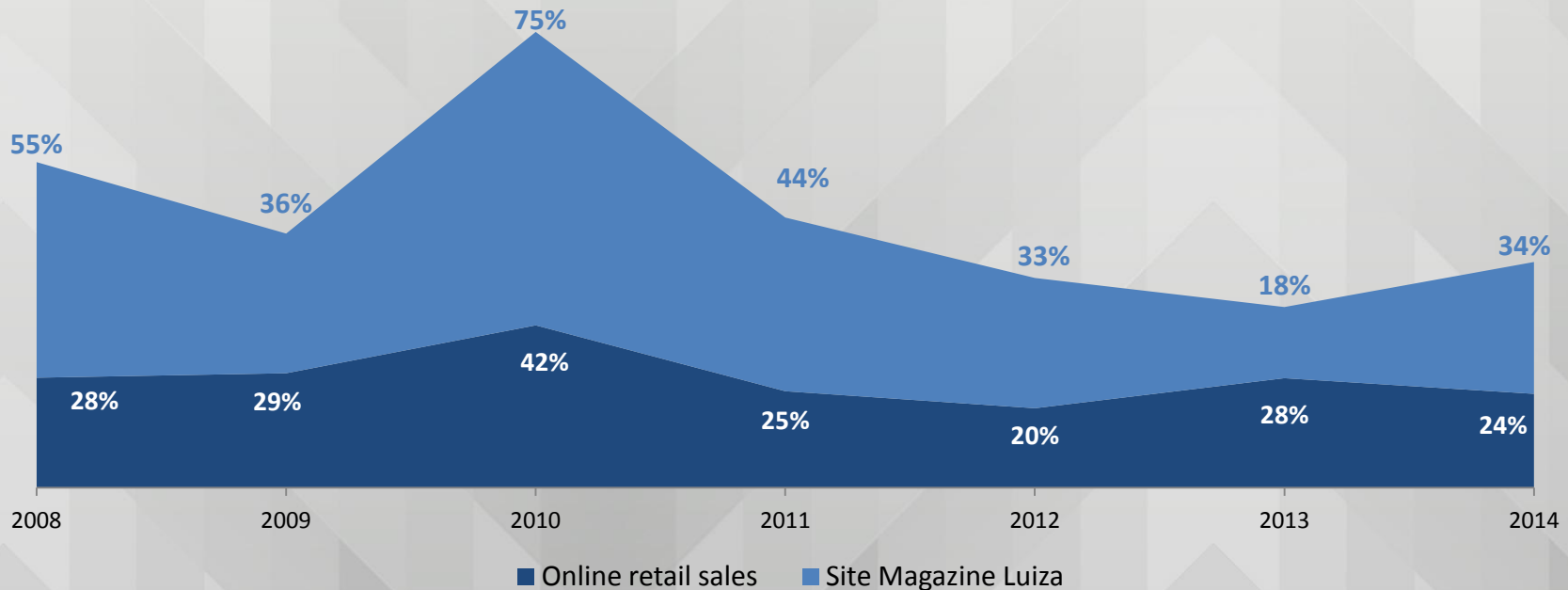
# Multichannel Strategy: Online vs Offline sales

Level of internet penetration in Brazil is higher than Latin American peers



# Ecommerce is still growing at robust rates

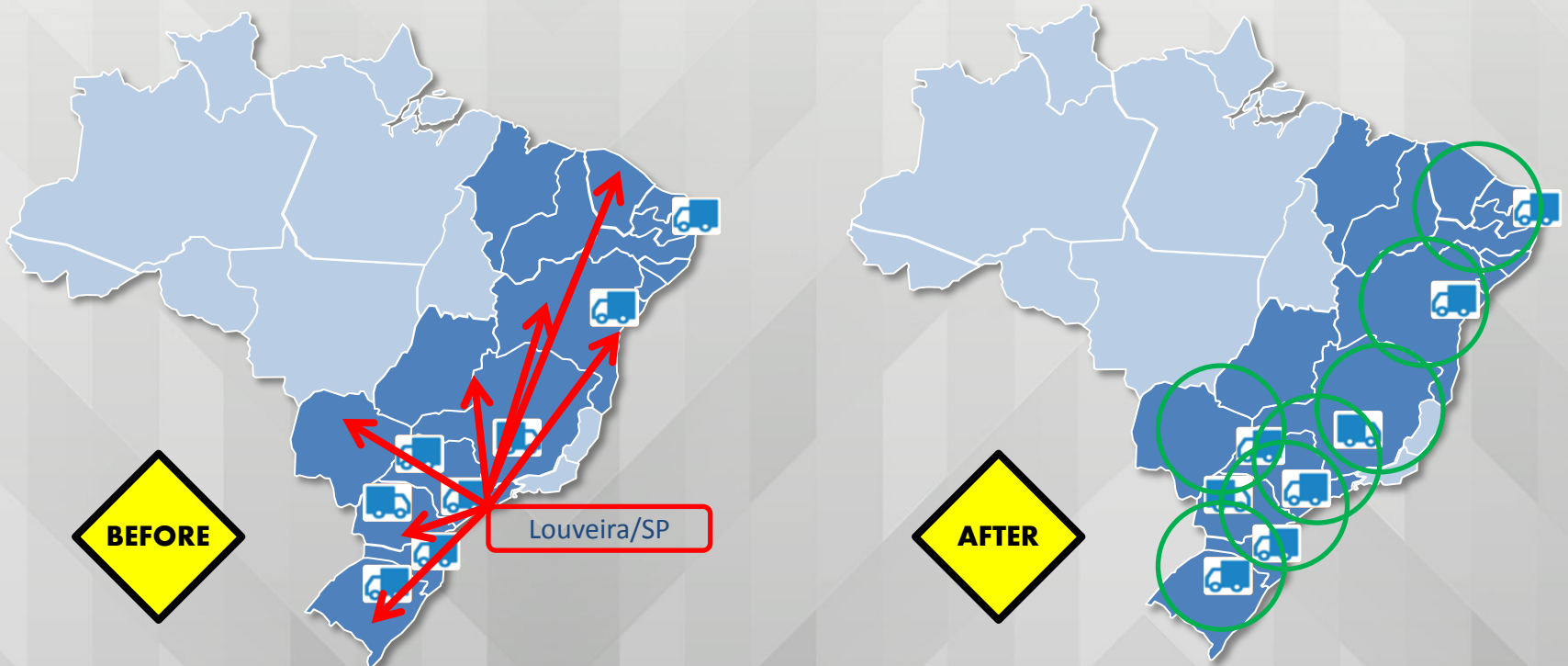
## YoY growth



Source: E-bit

# Multichannel logistics

Significant savings in freight and reduction in delivery days



# Multichannel Test

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**An unique tax ID**



Client decides where, when and how to buy

**Is the culture the same?**



Mission, Vision and Values shared

**Shared structure?**



Operational expenses dilution  
Marketing investments leverage

**Multichannel logistics?**



Hybrid DC model  
Fiscal benefits leverage

**Multichannel client?**



~50% of clients are multichannel already  
Multichannel client is more profitable

**Customer service?**



Homogeneous treatment  
Unique client service

**Industry relationship?**



Share purchases  
Specific planning for each channel

# Next steps...

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Store inventory available for  
e-commerce



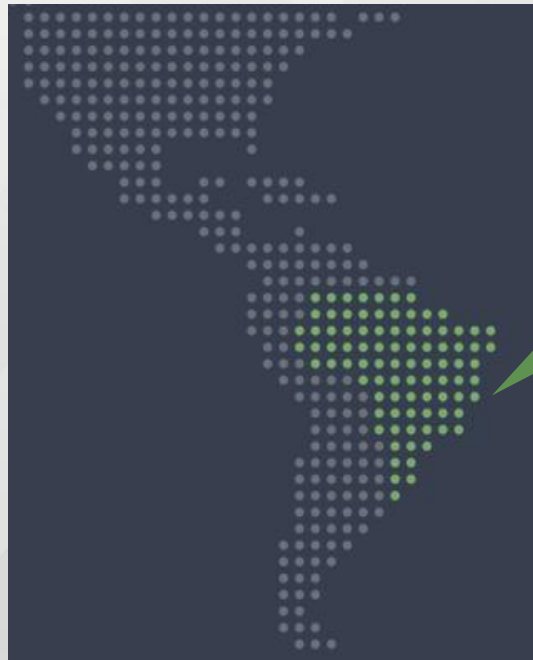
Reserve online, but pick it up  
at the store  
(store inventory)



Sell online using  
store inventory



# Social medias in Brasil



Monthly active users

**>98M**

Daily active users

**>62M**

Facebook has **56%** of all expending time in internet via desktop everyday

**94MM** of Brazilians have access to internet  
**49%** of Brazilian population



**+2MILLION**  
Facebook fans



**+100THOUSANDS**  
twitter followers



**37THOUSANDS**  
brand channel subscribers



**690THOUSANDS**  
Google plus circles

# Multichannel marketing

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# Magazine Luiza

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**Magazine Luiza**

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# Our figures

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**759** stores

**24,000** employees

**39 Mn** customers

**~ R\$ 12 billion** Gross Sales

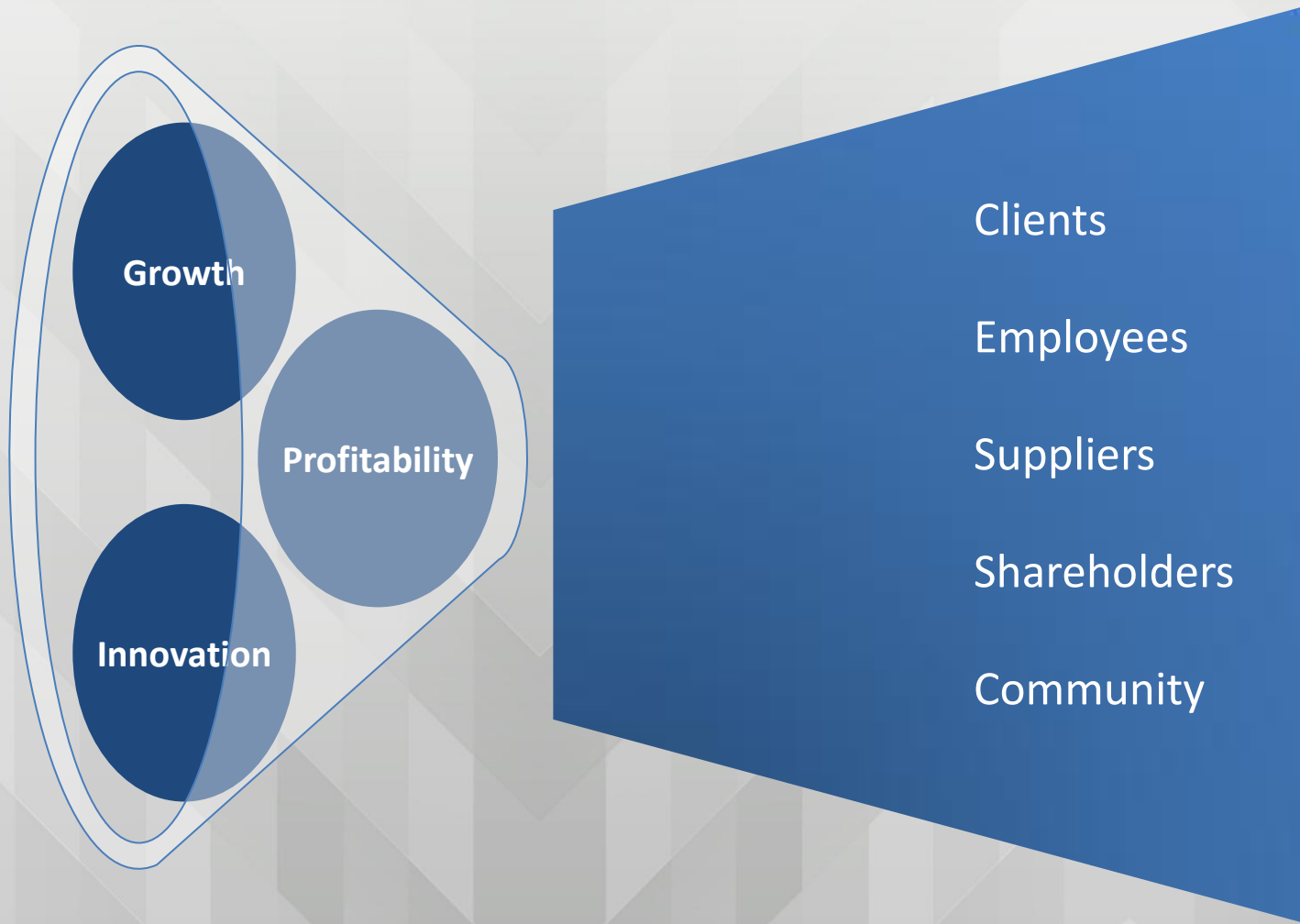
Focus on **people and innovation**

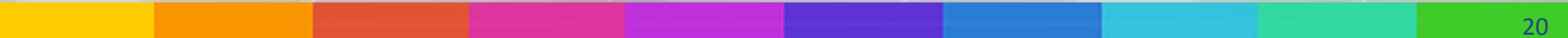
Target **middle class**



# Strategically Positioning

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# Culture

## Decentralization

- Store manager “owner’s mentality”, win-win compensation structure
- Salesperson has room to change prices at stores level
- Local marketing strategies



## Transparency

- Luiza Portal
- Employee council at store level
- Direct hotline with president Luiza



## Communication

- Luiza TV
- Weekly Rituals
- Morning meetings
- Luiza Radio



## Social Inclusion

- Disabled hiring:
  - Offices
  - Distribution centers
  - Stores





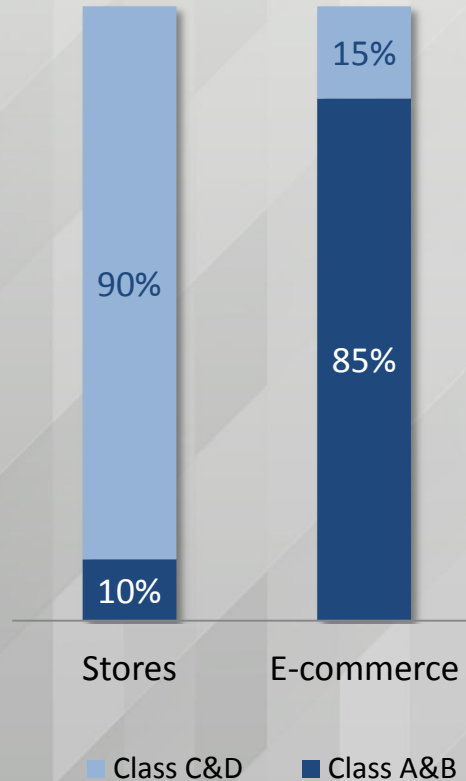
# Multichannel

## Multiple channels, complementary customers

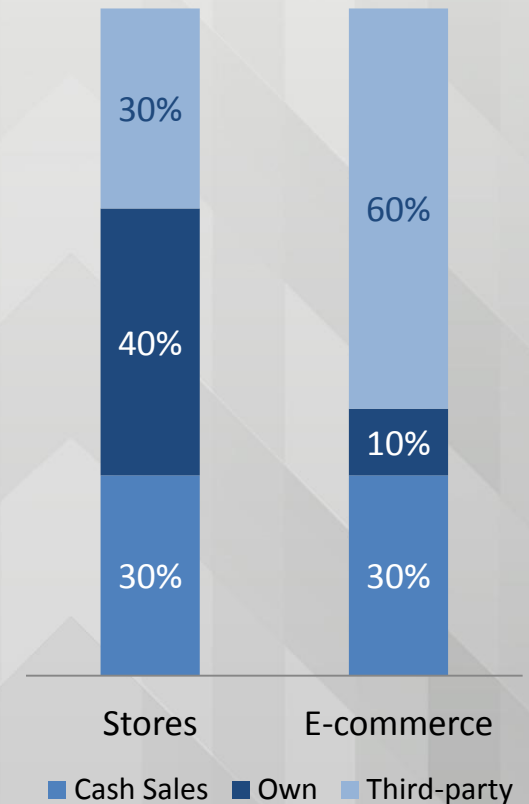
### Low cannibalization



### Customers breakdown



### Payment Mix





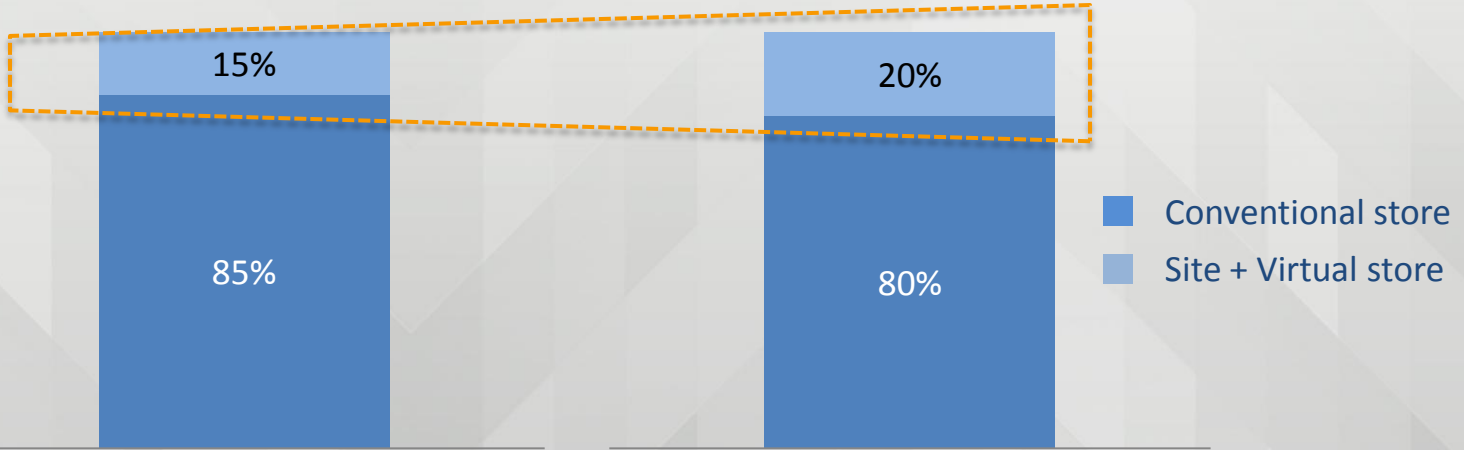
# Channel and product mix shift

As % of revenue

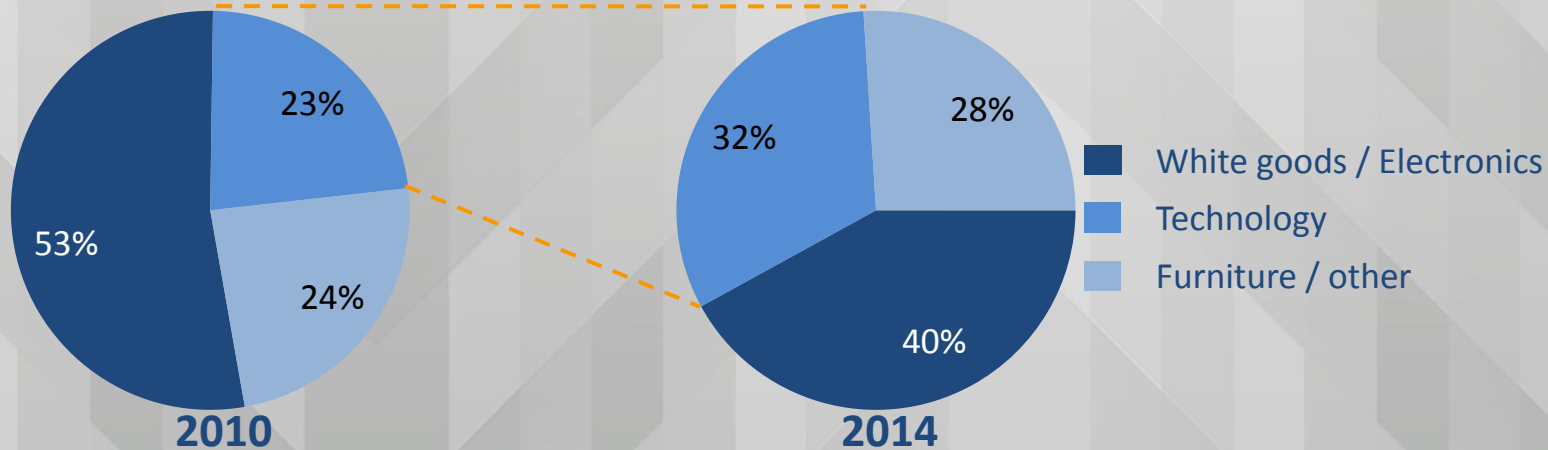
2010

2014

Channel mix



Sales mix

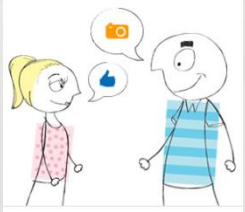


White goods / Electronics = white and brown goods; Technology = mobile, cameras, games and computers; Other = portable appliances, gifts, toys and others



# Innovation: Luizalabs projects

## Magazine Você (2011)



- Own URL + Facebook platform
- No limits on products
- Modern and personalized layout
- Social connections with complete navigation experience
- Possibility to expand sales mix through our marketplace
- Reached over 37.4MM people

## Chip Luiza (2012)



- First project of cobranded chip in Brazilian retail
- Prepaid: Focus on low income people
- Assertive communication and 1-ro-1 relationship
- Double recharge for calls from Claro operator to Claro phones
- Free access to social networks, e-mail, Magazine Luiza and Claro Websites
- Chip Luiza Menu: find stores, order a card, my offers

## Bob (2013)



- Content customization
- Responsible for all products recommendations at magazineluiza.com site
- Delivery, purchases suggestions by e-mail and social medias
- Customized Home and e-mails
- Customized adds in Facebook and Google

## Quero de Casamento (2014)



- >10k wedding lists
- 1 click-buy experience
- Customer reviews
- Store locator





# CRM as a tool



**EXCLUSIVE  
OFFERS**



**COMERCIAL  
CONDITIONS**



**AWARDS  
DRAWS**



**GIFTS**



**BREAKFAST  
AND MORE  
PERKS!**

**DIA DE  
OURO**

**1.8 million clients  
~5% of total clients base**

**10% of active clients  
20% of total revenue**

## Communication plan



**E-mail Marketing**



**Chip Luiza**



**SMS**



**Telemarketing**



**Posts on Facebook**



**Hot site**



**Direct mail**



# Promotions management



Action		1Q	2Q	3Q	4Q
Liquidação Fantástica		✓	✓	✓	✓
Golden Cliente Day		✓	✓	✓	✓
Only tomorrow		✓	✓	✓	✓
TOP 5 Magazine Luiza		✓	✓	✓	✓
Calendar events (Mother's day, valentine's day, Christmas, sectorials promotions, etc)		✓	✓	✓	✓
Black Friday		✓	✓	✓	✓



# Liquidação Fantástica (First mega sale of year)







# Dia do Cliente Ouro (Golden Client Day)





# Financial Products and Services



Financing services **available at every store**

Finances roughly **30% of consolidated sales**

**3.5 million** cards and credit portfolio of **R\$4.5 billion**

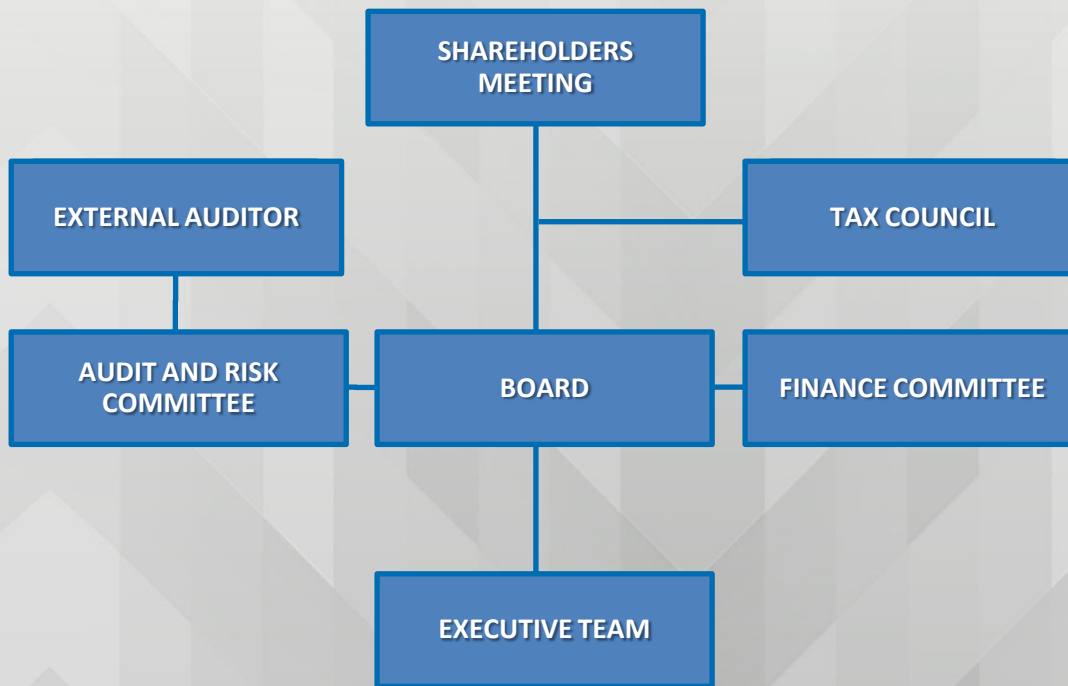
**Luizacred: Itaú Unibanco *Expertise*** in credit offers, collections and funding

**Luizaseg: Cardif *Expertise*** in extended warranty and insurance products





# Corporate Governance



Long track record of controlling shareholders in the sector **(+50 years)**

**35-year** shareholders agreement

**Independent board** members since 2005

Aligned compensation and retention plan for senior management **(stock options)**

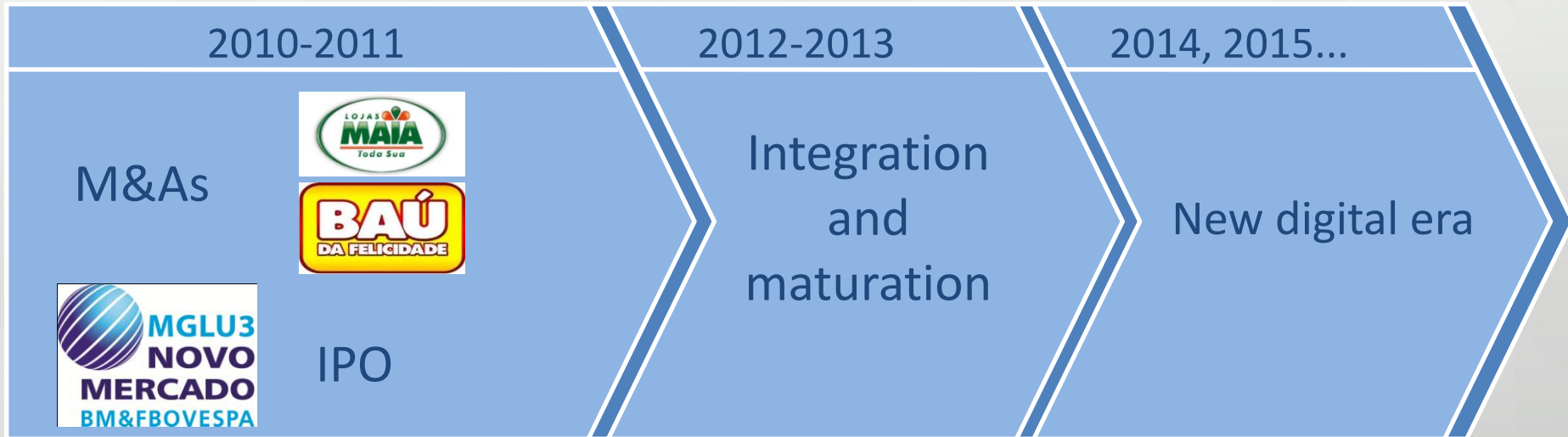
**Tax council** since 2012

**Audit committee** head by independent member

**Agile accounting process** for earnings release despite complex group stricture



# Strategic phases recap



- Entrance in NE and Baú M&A (+250 stores)
- Strengthening or virtual stores format
- IPO proceeds:

- New stores
- acquisitions
- Remodeling

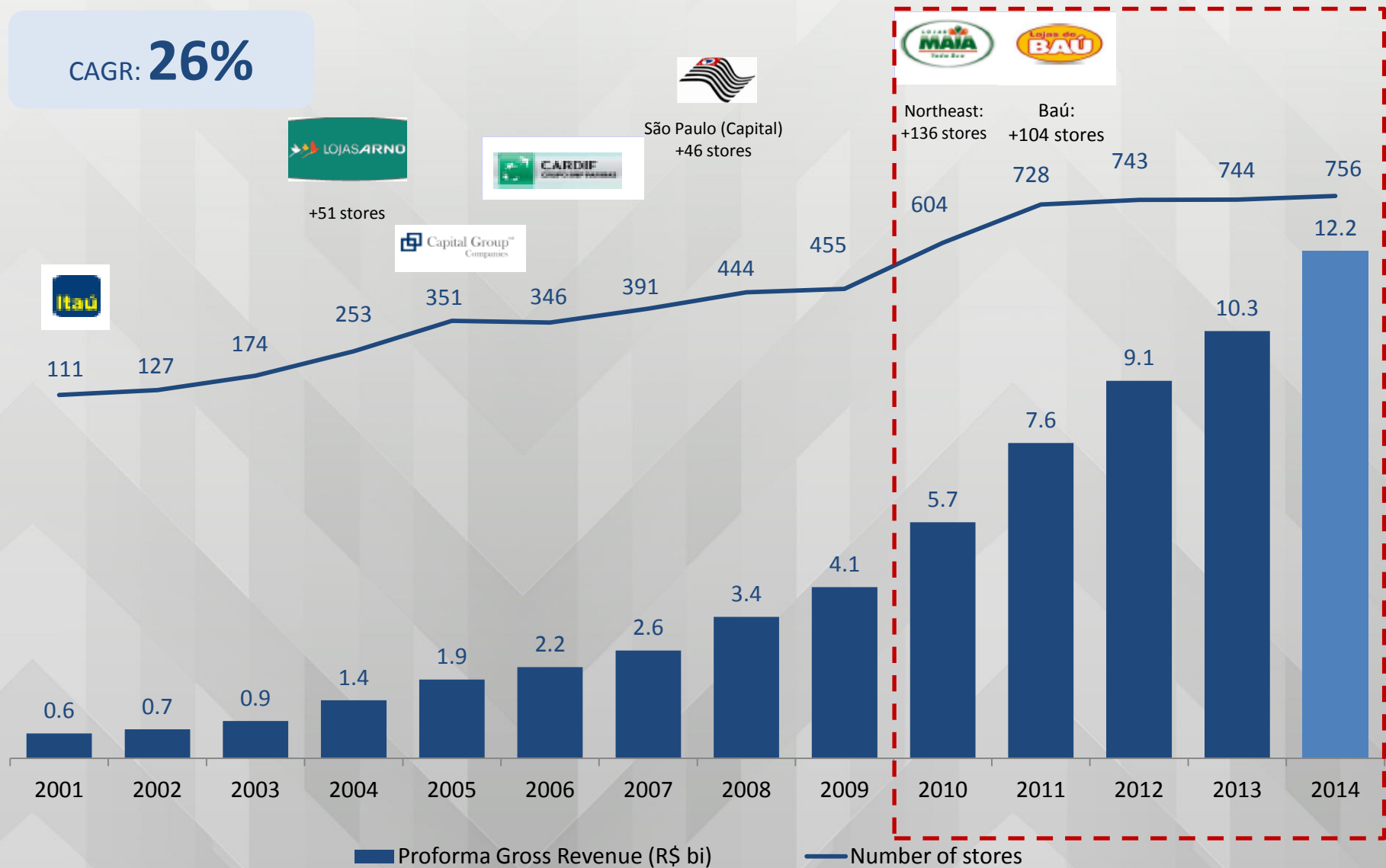
- Working capital
- debt amortization

- 11 simultaneous states
- Systems integration
- Store remodeling
- Change in banners
- Corporate integration

- Focus on profitability
- Consolidation of Multichannel strategy
- Marketplace launch
- Digitalization and automation of stores

# Growth

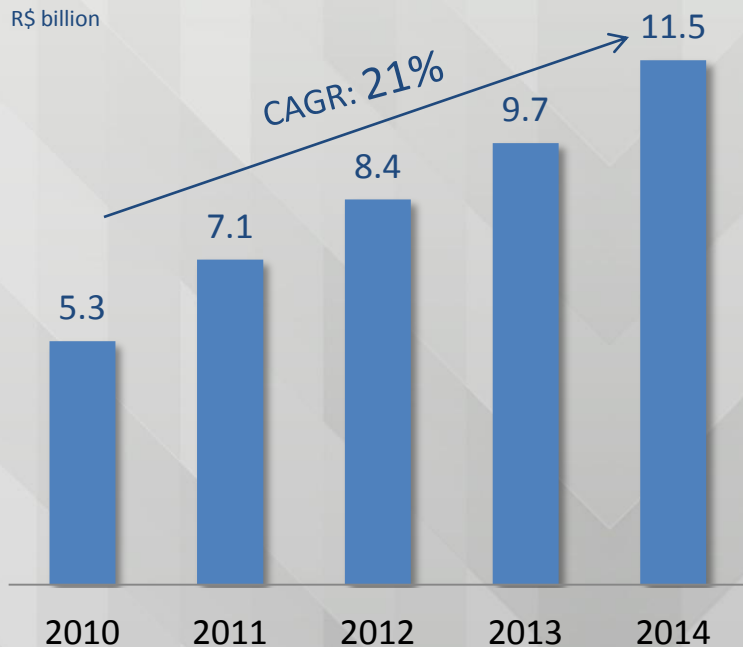
CAGR: **26%**



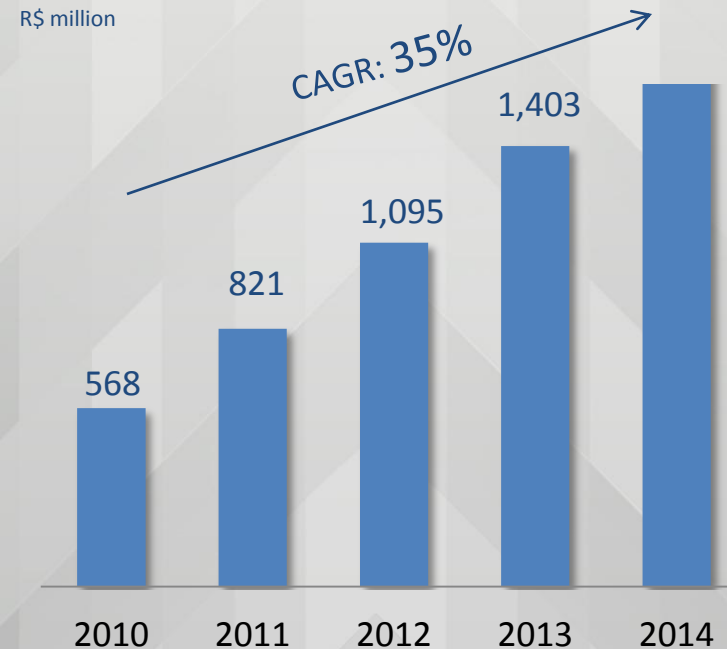


# Strong growth on and offline

Magazine Luiza gross sales



E-commerce gross sales



# Market share gains in 2014



## Telephony

Growth above the market  
+110bps of market share increase



## Image

Growth above the market  
+30bps of market share growth



# Magazine Luiza

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# 2015 Outlook

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- Continue to grow above market
- Protect margins
- Rationalize costs and expenses
- Digitalize the store experience and
- Enhance the multichannel approach to the business

# Expansion plan for 2015



## Total

New stores +30/40 stores

Remodeling +60 stores

## Capex

~R\$150 MM

\* Including 10 stores already acquired during 2014

# 2015 Cash Generation

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## Operating Cash Flow

- Profitability increase as new stores mature
- Higher dividends payout from Luizacred
- Working capital improvement, with suppliers financing inventories
- Faster recovery of taxes

## Investing Cash Flow

- More investment in new stores, focus in NE
- Most of acquired stores are already remodeled
- Renewal of exclusivity insurance agreements (Luizaseg)

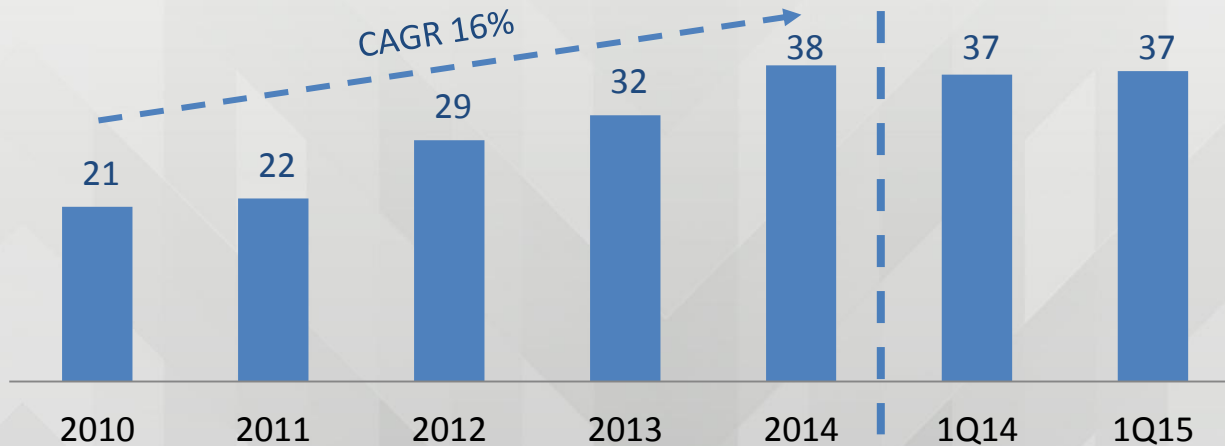
## Financing Cash Flow

- Dividend payment
- Share buyback
- Amortization of existing debt and increase in debt profile

# Financial Performance

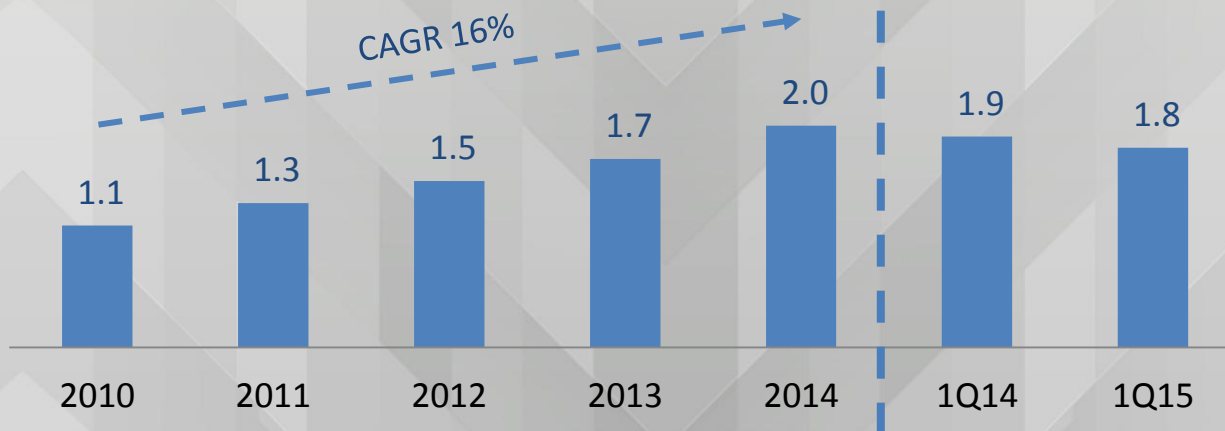
# Productivity indicators

## Revenue by employees (R\$ thousand / month)



- Productivity per employee is rising above inflation and also higher than same store sales

## Revenue by m<sup>2</sup> (R\$ thousand / month)

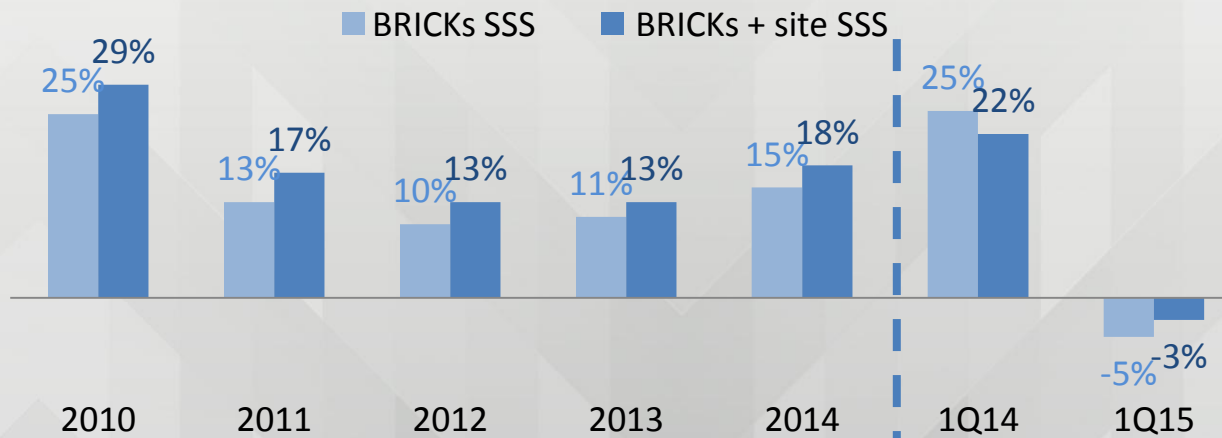


- Revenue by m<sup>2</sup> is increasing at a fast pace, in line with same store sales growth



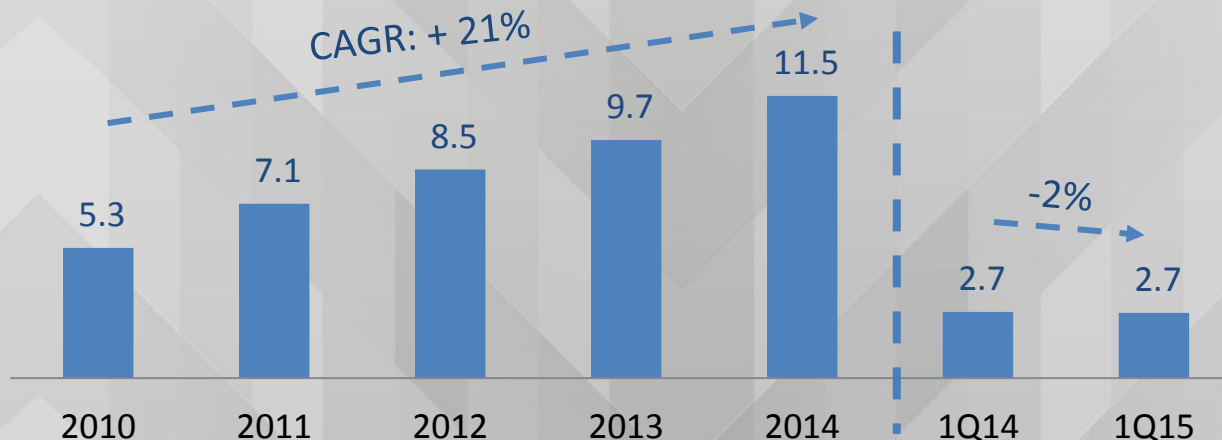
# Sales: important lever for results

## Same Store Sales performance



- Extremely high comparison basis in 1Q14 (+44.0% e-commerce) as well as in the stores (+22.3% SSS)

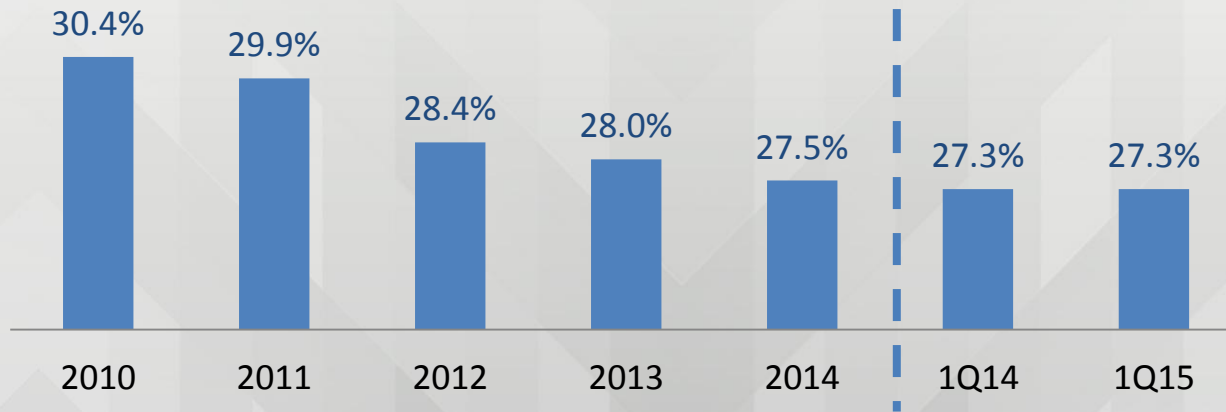
## Gross revenue performance (R\$ Billion)



- LTM gross revenue of R\$ 11.5 billion
- Excluding TV sales, gross sales growth of all other categories would have been +4.8% in 1Q15.

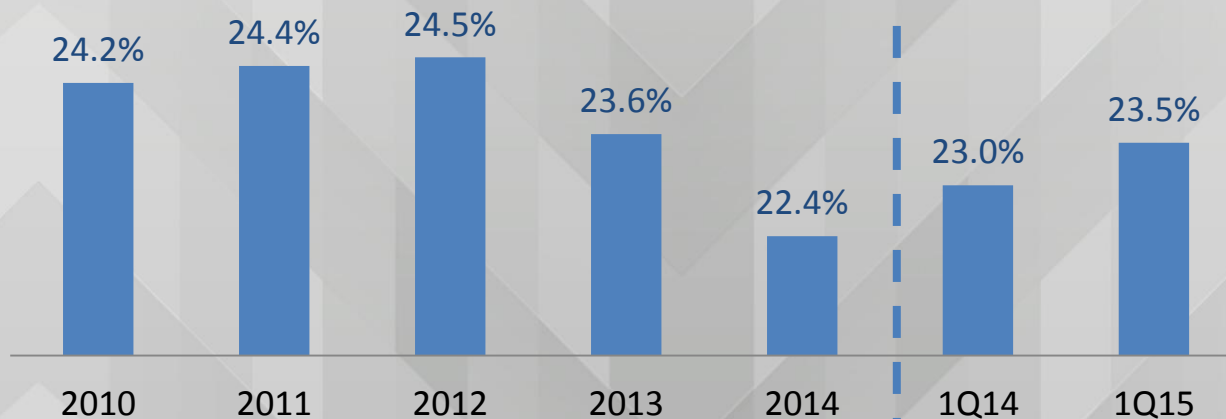
# Margin trends and good expenses control

## Gross margin evolution



- Basically unchanged gross margin at 27.3%, despite the e-com participation increase in the total sales and challenging consumer environment in 1Q15

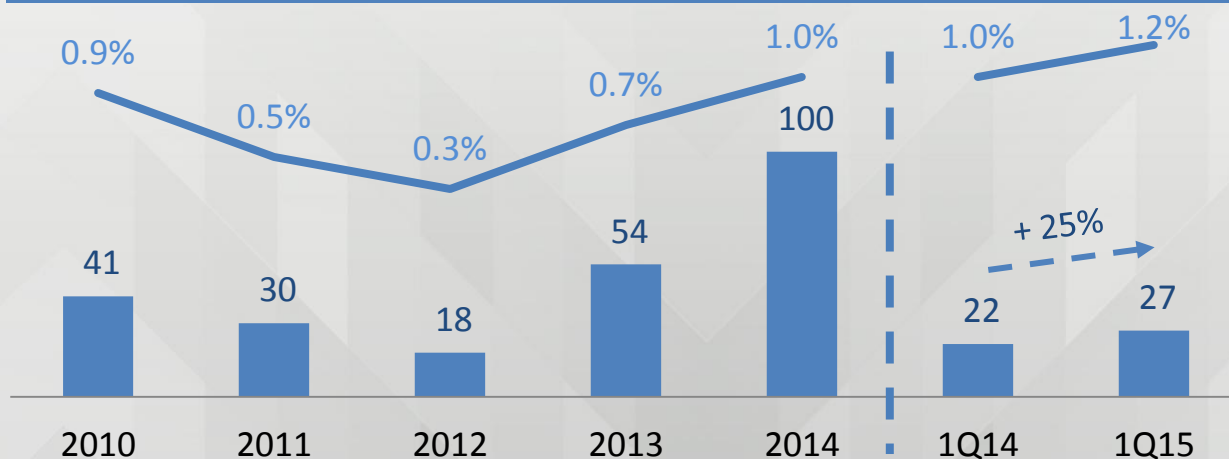
## Sales, General and Administrative expenses (as % of net sales)



- Increase of 1.6% yoy, much lower than inflation

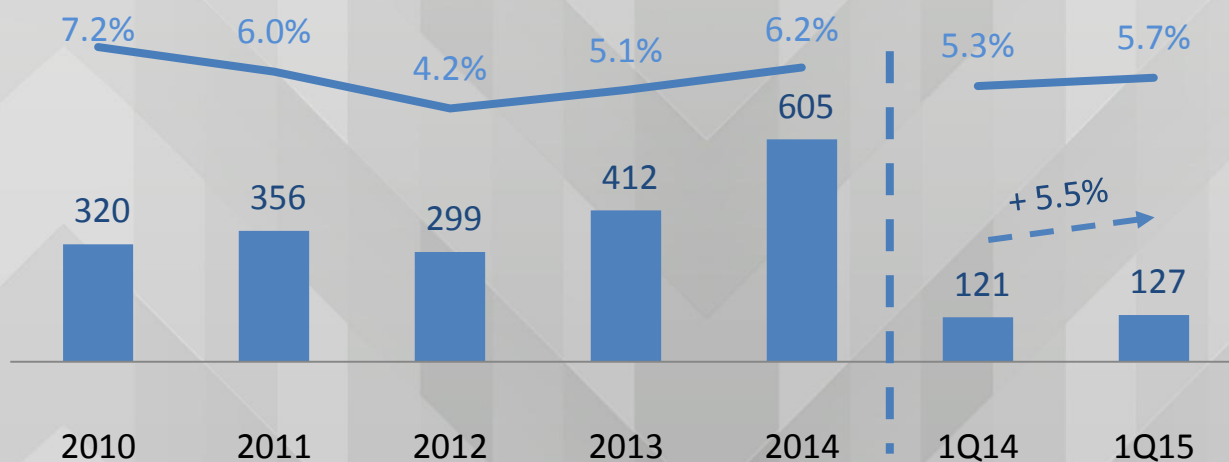
# Equity and EBITDA evolution

## Equity (R\$ millions)



- Luizacred is improving its results consistently
- Adopted conservative credit police

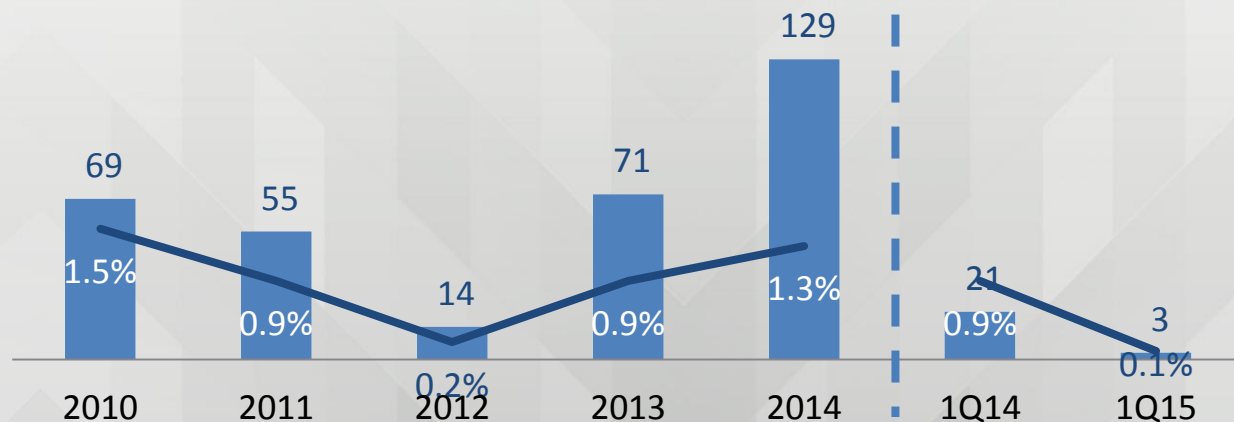
## Adjusted EBITDA (R\$ millions) and Adjusted EBITDA margin (%) evolution



- EBITDA margin increase of 40 bps versus 1Q14 (5.7% in 1Q15)
- Impacts:
  - (i) Stable gross margin
  - (ii) Better SG&A expense control
  - (iii) increase in equity income.

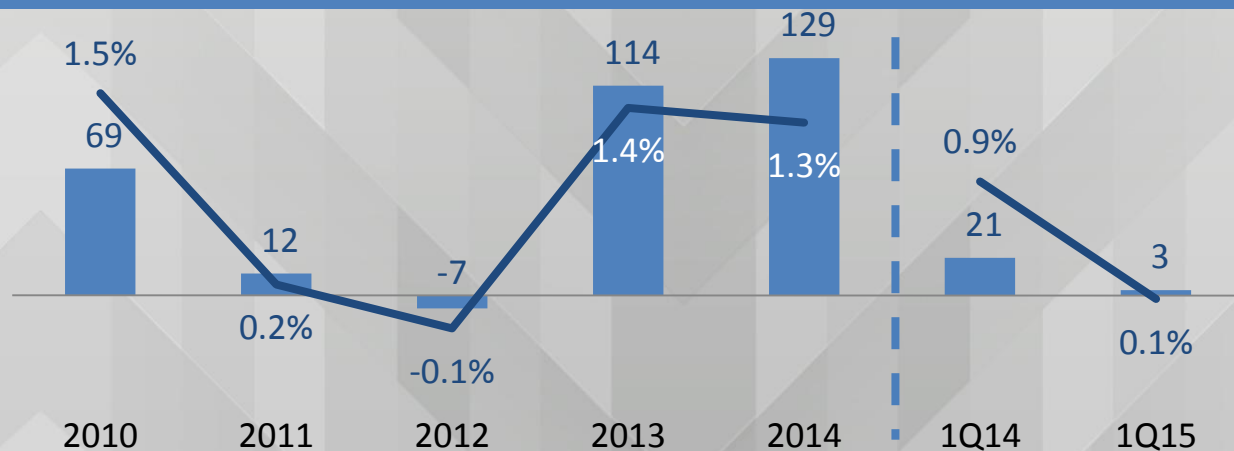
# Net income and net margin evolution

## Adjusted Net Income (R\$ millions)



- Earnings negatively impacted by higher financial expenses in the period and sales performance.

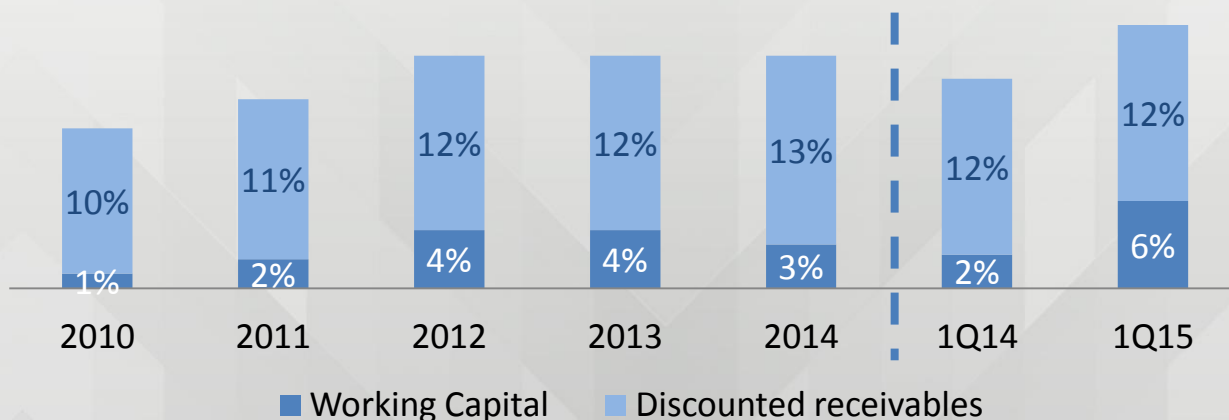
## Net Income (R\$ millions)



- Dividends payment and share buyback

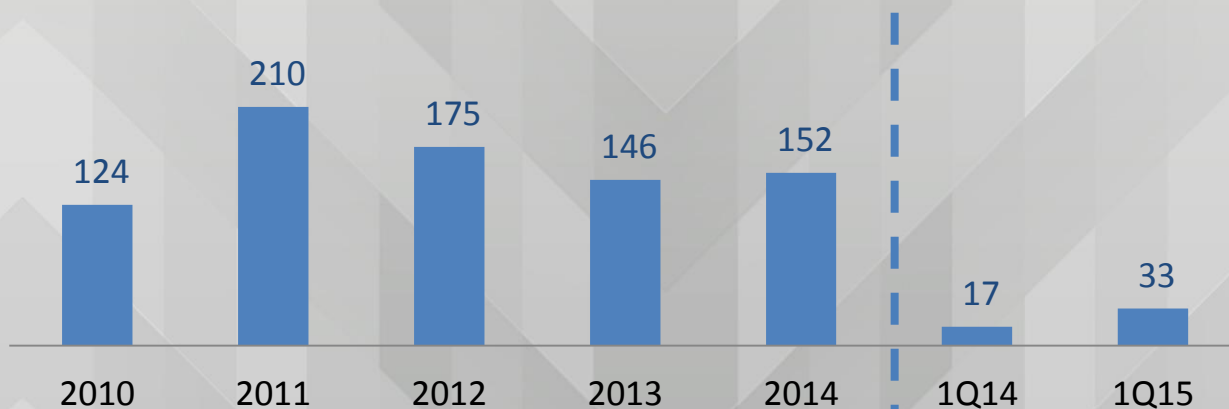
# Working Capital and Investments

## Working Capital (% of Gross Revenue)



- Working capital rose to 6.0% of LTM sales in 1Q15 due to seasonality, lower sales and strategic purchases, all of which should be reverted over the next quarters

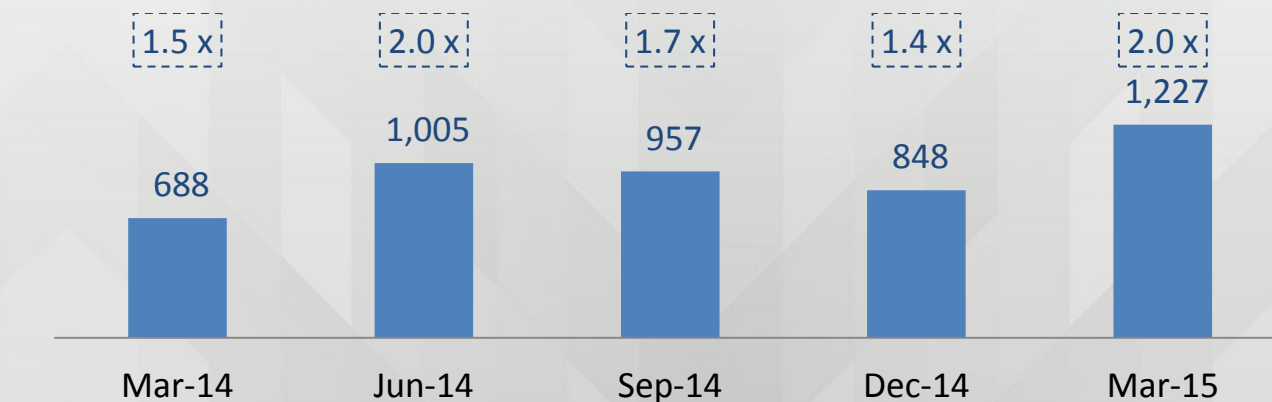
## Investments (R\$ millions)



- More than R\$700 million invested in the last 4 years
- Higher number of store remodeling, mainly the stores that were acquired

# Net Debt and Financial Results

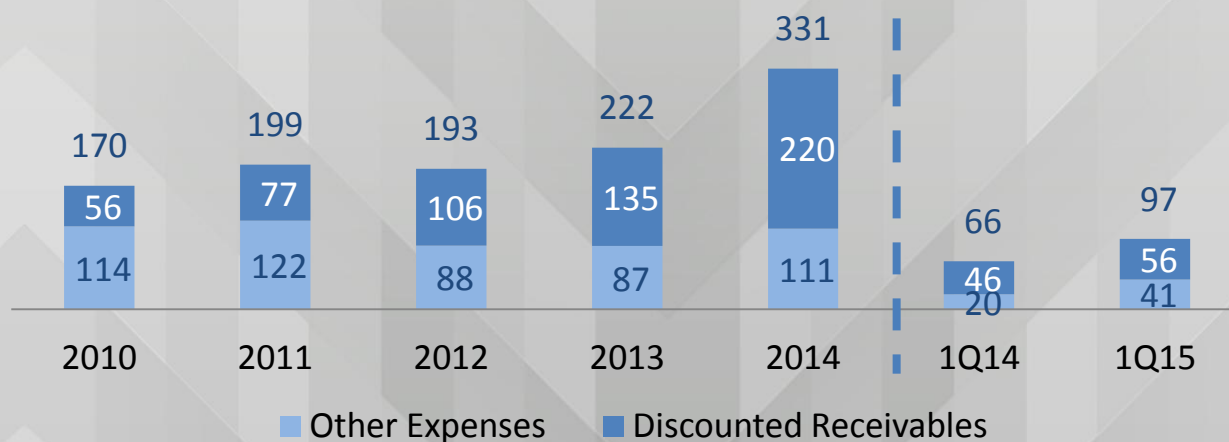
## Net Debt (R\$ millions)



- Increase in leverage to 2.0x EBITDA in Mar-15 from 1.4x in Dec-14

Net Debt / EBITDA

## Financial Results (R\$ millions)



- Increase of 46.2% in net financial expenses to 4.3% of net sales in 1Q15 (versus 2.9% in 1Q14) due to higher interest rates in the period and change in working capital needs

# Luizacred Highlights

## NPL (% of portfolio)



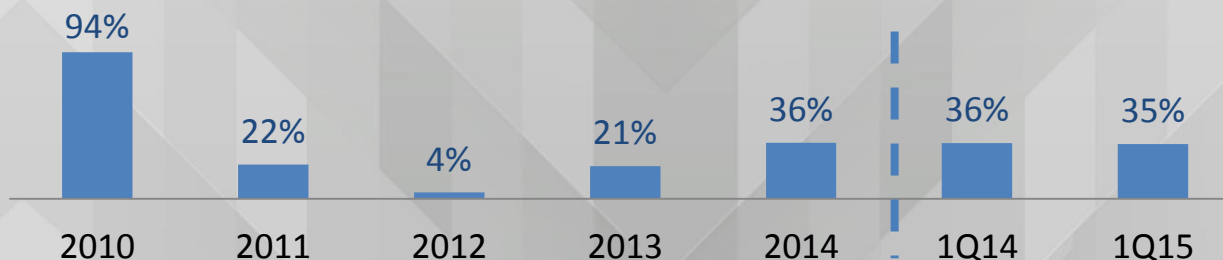
- Improvement in the portfolio profile risk allowed for decrease in provisions, while maintaining coverage ratio stable

## Net Income (R\$ million)



- Luizacred net income totaled R\$47.4 million in 1Q15, 19.4% higher YoY

## ROE

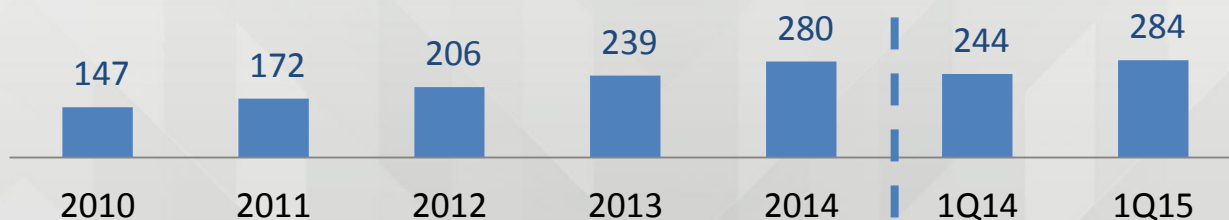


- Luizacred achieved ROE of 35% in 1Q15



# Luizaseg Highlights

## Cash and Financial Investments (R\$ million)



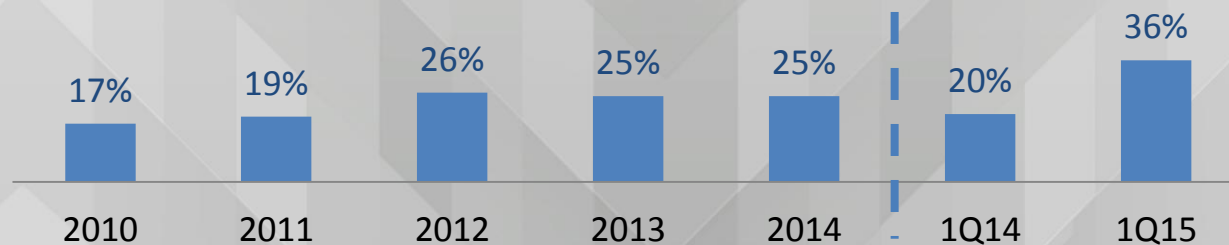
- Cash generation of more than R\$ 40 million in the last 12 months
- Strong dividends payment

## Net Income (R\$ million)



- Consistent profitability

## ROE



- High ROE



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Magazine Luiza



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