# MAGALU

## BTG CONFERENCE
OCTOBER 2017

magazineluiza

# COMPANY OVERVIEW

**R$13**bn Gross Revenues LTM

**50**m customers
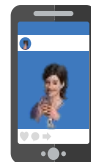
**828** stores

**28%** of e-commerce
Share of total sales (1H17)
vs. 22% in 1H16

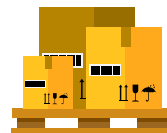**18**m unique visitors[1]
digital channels

Focus on
**People and innovation**

# FINANCIAL HIGHLIGHTS: STRONG RESULTS...

**+56%** E-commerce
growth in 1H17

**30.3%** gross margin
-70bps vs. 1H16

**+13%** Physical Stores
growth in 1H17

**21.8%** SG&A
-220 bps vs. 1H16

**+24%** Gross Revenues
growth in 1H17

**8.5%** EBITDA margin
+150 bps vs. 1H16

# ...COUPLED WITH STRONG PROFITABILITY AND FINANCIAL DISCIPLINE

**4.4%** Financial Expenses
-100 bps vs. 1H16

**R$131m** Net Income
(vs. R$16m in 1H16)

**ROIC: 30%**(1H17)
**ROE: 35%**(1H17)

**R$955m** Adjusted Cash Flow from Operations (LTM)

**R$444m** in Working Capital Improvement (LTM)

**R$515m** Net Debt Reduction (LTM)

# CLEAR GROWTH DRIVERS...

## BRAZIL HAS A LARGE AND YOUNG POPULATION...

**206m people**

~56% less than 35 years old

68% connected in 2016

## ... COUPLED WITH STRONG SOCIAL MEDIA USE, SOLID E-COMMERCE GROWTH AND A ROBUST BANKING SYSTEM

+120m users

**48m**
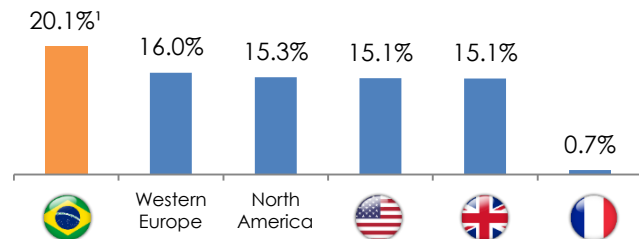active e-commerce users

**84m** credit cards

**R$699bn**
In payments done through credit cards

Source: IBGE, Internet Worldstats, We Are Social, E-bit and ABECS
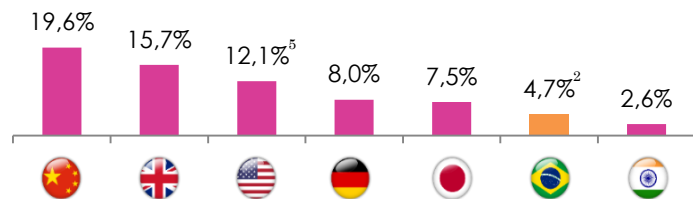
# … FOR A THRIVING MARKET

## ONE OF THE FASTEST GROWING MARKETS …
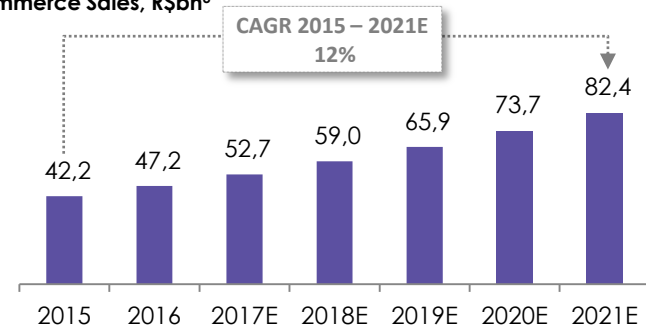
**E-commerce market CAGR (2010 – 2016)**

| 20.1%[1] | 16.0% | 15.3% | 15.1% | 15.1% | | 0.7% |
|---|---|---|---|---|---|---|
| Brazil | Western Europe | North America | USA | UK | | France |

## … EXPECTED TO GROW EVEN FURTHER …

**E-commerce Sales, R$bn[3]**

CAGR 2015 – 2021E
**12%**

| 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| 42,2 | 47,2 | 52,7 | 59,0 | 65,9 | 73,7 | 82,4 |

## … BUT ONLINE RETAIL IS JUST GETTING STARTED …

**E-commerce as % of retail sales, 2016**

| 19,6% | 15,7% | 12,1%[5] | 8,0% | 7,5% | 4,7%[2] | 2,6% |
|---|---|---|---|---|---|---|
| China | UK | USA | Germany | Japan | Brazil | India |

## … WITH FURTHER ROOM FOR EXPANSION

**E-commerce as % of retail sales**

+0.9pp

| 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| 4,7% | 4,9% | | | | 5,8% |

**+R$50 billion market[4]**
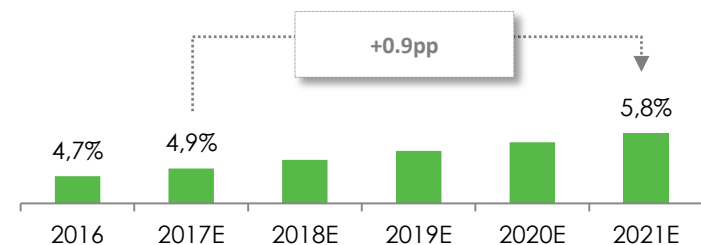
Source: E-bit, Euromonitor, eMarketer
[1] E-bit; [2] Euromonitor; [3] Implied market values from '2017E-'2020E assuming 12% expected CAGR from '2015-'2021E; [4] Market size expected for 2017E; [5] Excluding auto, gas and food sales
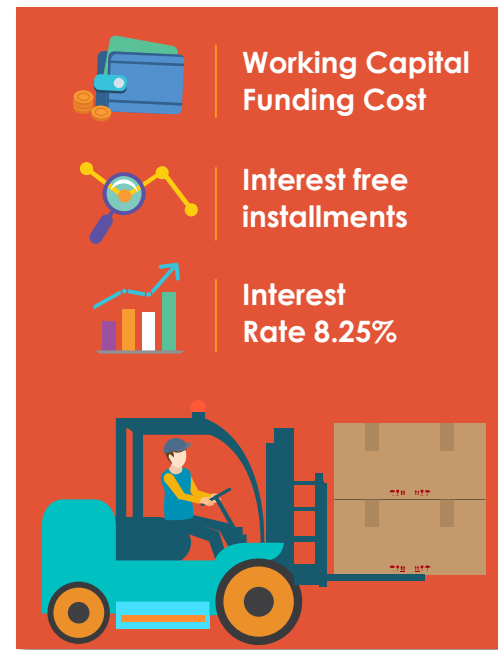
# MARKETS WITH STRUCTURAL CHALLENGES

## INFRASTRUCTURE

## TAXES

ICMS
INSS
FGTS
IPI
PIS
CSLL
ISS
IR
CPMF
COFINS
IPVA
IOF
IPTU

## COSTS

Working Capital Funding Cost

Interest free installments

Interest Rate 8.25%

# MAGALU'S DIGITAL TRANSFORMATION...

FROM → TODAY

**TRADITIONAL RETAIL COMPANY WITH DIGITAL PRESENCE**

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vem ser feliz

**DIGITAL PLATFORM WITH PHYSICAL PRESENCE AND HUMAN TOUCH**

# … IS BASED ON 5 KEY PRINCIPLES

**DIGITAL**
TRANSFORMATION

**1**st **OMNICHANNEL** STRATEGY

**2**nd **DIGITAL** INCLUSION

**3**rd **DIGITAL STORES**

**4**th **LEAN, ENTREPRENEURIAL** CULTURE

**5**th **DIGITAL SALES** PLATFORM

**OMNICHANNEL** STRATEGY

THE ONLY PLAYER WITH A **TRULY OMNICHANNEL** OPERATION

**SINGLE OPERATING PLATFORM**

Conventional Stores

Magazinevocê

+1,000 Delivery partners

ML

10 DCs

Virtual Stores

Mobile

Single Backoffice

E-Commerce

Phone Sales

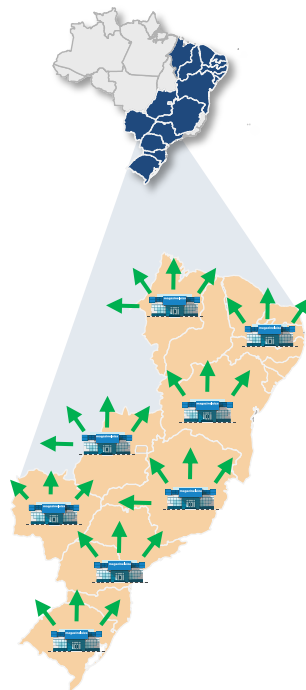**SERVING ALL SALES CHANNELS**

# OMNICHANNEL STRATEGY

## FULLY INTEGRATED LOGISTICS PLATFORM

### Luiza Network

Integrated nationwide logistics & distribution capabilities

### Shoppable Distribution Centers

**828** stores
Shoppable Distribution Centers (SDC)

**1.9** million sf of storage area in SDCs

### Logistics & distribution capabilities

**+1k** Delivery Partners

**10** Distribution Centers (DC)

**3.5** million sf of storage area in DCs

**5.4** million sf of total storage area (stores and DCs)

- ✓ Shared distribution centers
- ✓ Faster and cheaper last mile delivery
- ✓ Integrated ERP
- ✓ Free in store pick-up mostly up to 48hrs

# WHY OUR PHYSICAL STORES WILL **THRIVE IN THE DIGITAL ECONOMY**

## FROM SELLING GOODS, TO PROVIDING DIGITAL INCLUSION

Mobile Sales

Mobile Inventory

Mobile Pin Pad

Digital Credit

Postpaid Mobile Plans

Financial Services

Lu Connects

WiFi for customers

Smart Exchange

Pick up at store

New showroom experience

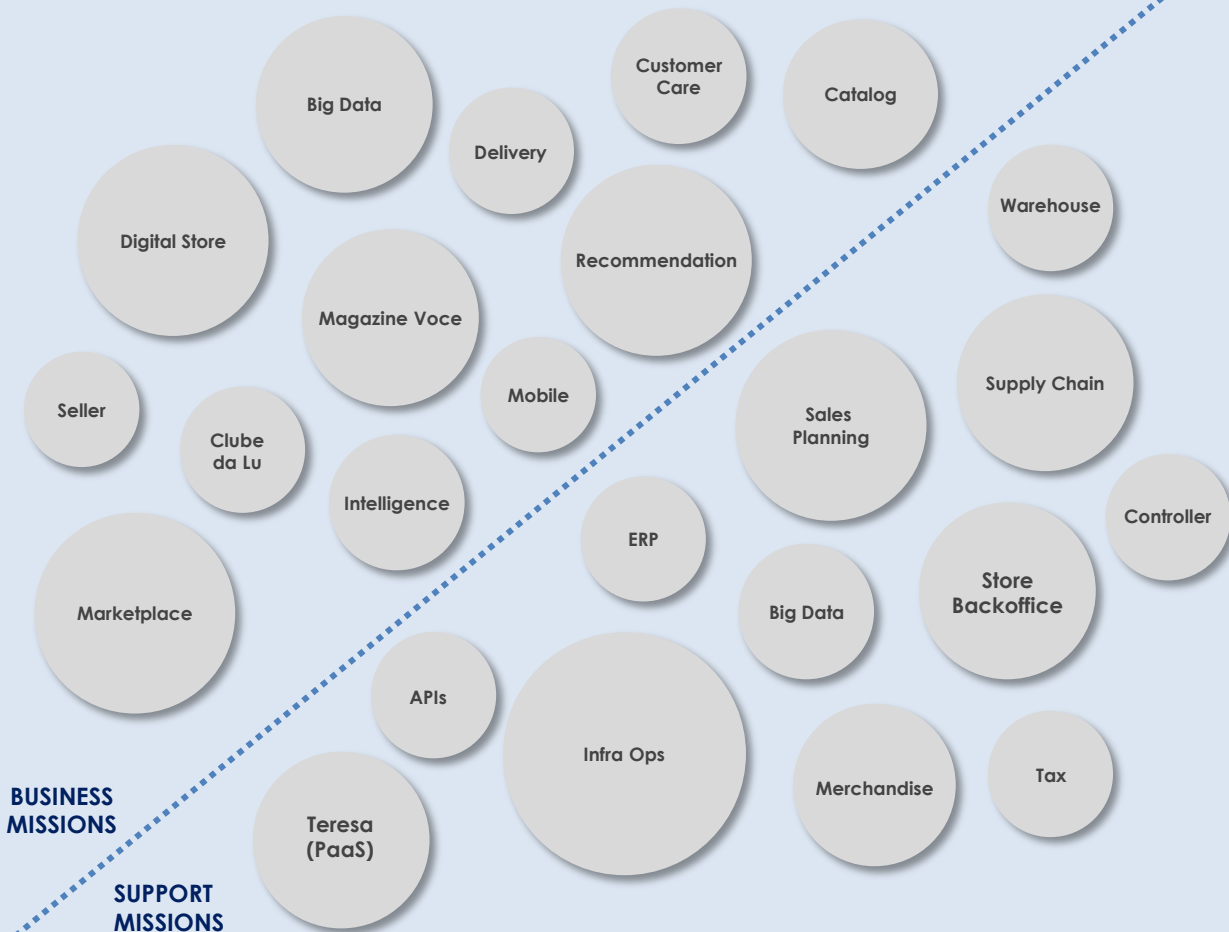Ship from store

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## STORE PROCESS AUTOMATION AND NEW SERVICES

**LEAN, ENTREPRENEURIAL CULTURE**

OPERATING **TODAY** AT THE SPEED OF A **STARTUP**

**+300 SOFTWARE ENGINEERS** AND **+40 TEAMS**

- Big Data
- Customer Care
- Catalog
- Delivery
- Digital Store
- Recommendation
- Warehouse
- Magazine Voce
- Seller
- Mobile
- Supply Chain
- Clube da Lu
- Sales Planning
- Intelligence
- ERP
- Controller
- Marketplace
- Big Data
- Store Backoffice
- APIs
- Infra Ops
- Merchandise
- Tax
- Teresa (PaaS)

**BUSINESS MISSIONS**

**SUPPORT MISSIONS**

DIGITAL SALES
PLATFORM

THE NEXT
**BIG OPPORTUNITY**
IS IN
**LONG TAIL**

| STAGE 1 | STAGE 2 | STAGE 3 | STAGE 4 |
|---------|---------|---------|---------|
| Connecting & Entertaining | E-Business Basics | Comparable Goods | Subjective Purchases |

Next Generation

Established and Digital
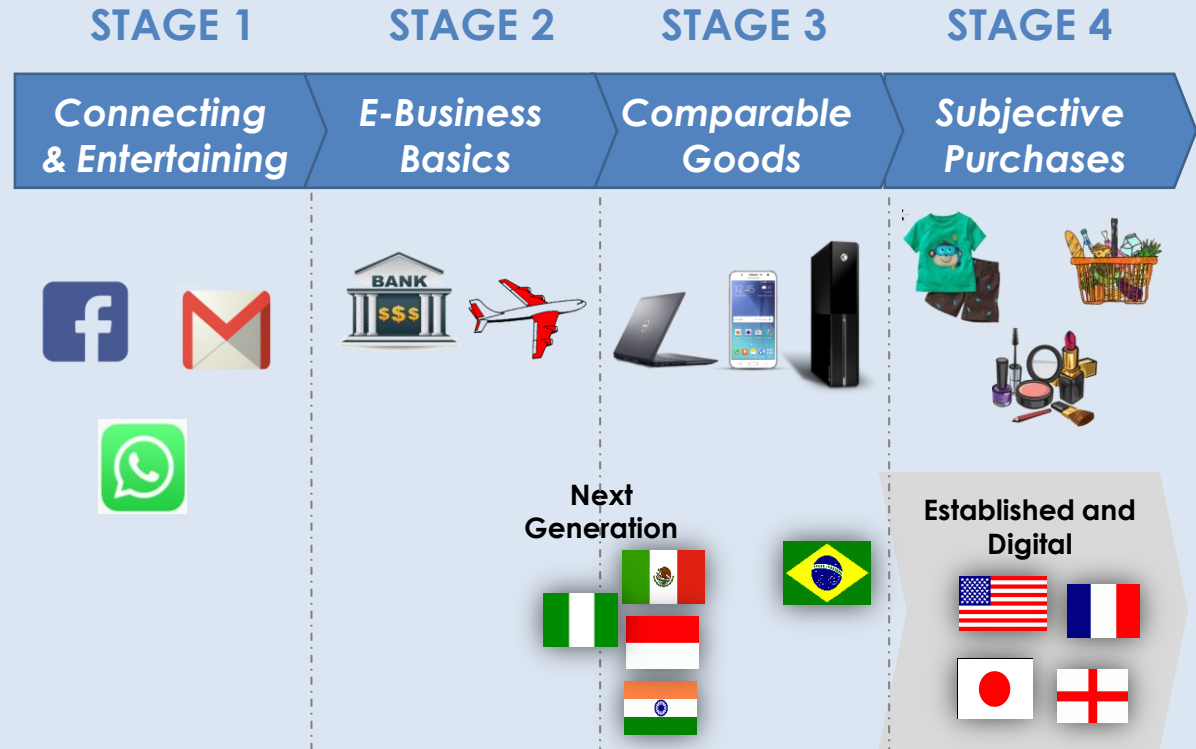
**DIGITAL SALES**
PLATFORM

1P AND 3P USER EXPERIENCES
**INDISTINGUISHABLE**

**FIRST CLASS PARTNERSHIPS...**

✓ **Small and medium** size retailers

✗ **Direct competitors**

✓ **Leaders** in **complementary** segments

✗ Players with **informal inventory**
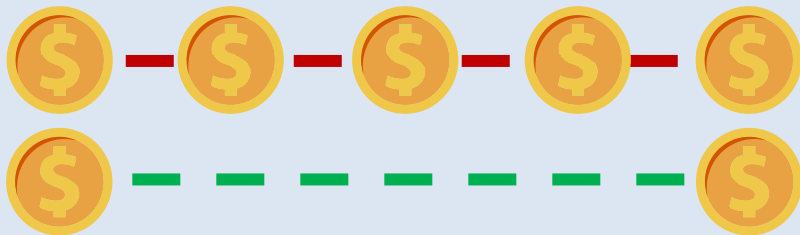
✓ Sellers with **focus on customer satisfaction**

✗ Sellers with **poor levels of service**

**... IMPROVING BUSINESS EFFICIENCY**

**REDUCING INTERMEDIATIONS TO REDUCE COSTS**

# DIGITAL SALES
## PLATFORM

# MAGALU
# AS A
# SERVICE

## magazineluiza marketplace

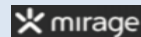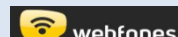| 1st Stage | MVP (until Dec-16) | 2nd Stage | Expansion (until Dec-17) | 3rd Stage | Scale (2018 onward) |
|---|---|---|
| ✓ Platform stabilization<br>✓ Customer Service Center (CSC)<br>✓ Integration with VTEX<br>✓ Complementary Categories | ✓ New Products Page<br><br>✓ APIs opened to 3rd parties<br><br>✓ Integration with All Platforms | ✓ **Integration with Physical Stores**<br><br>✓ **Magalu Ads**<br><br>✓ **Magalu Payments**<br><br>✓ **Fulfillment by Magalu** |

+50 Sellers
+80k SKUs

+400 Sellers
+1m SKUs

+Sellers
+SKUs

## Current sellers

Whirlpool   MULTI-AR AR-CONDICIONADO   +SP DROGARIA SÃO PAULO   LACTA   MEGA MAMUTE   AVON   Stamaco

ÉPOCA COSMÉTICOS · PERFUMARIA   madeiramadeira O MAIOR HOME CENTER DA INTERNET   cadence   DBestShop   ClimaRio

HAVAN   ambev   redes de dormir.com   webfones   mirage   Spicy

DIGITAL SALES
PLATFORM

STRATEGIC
ACQUISITION
**ACCELERATED
MARKETPLACE
GROWTH**

API

Enterprise

INTEGRA
COMMERCE

Business
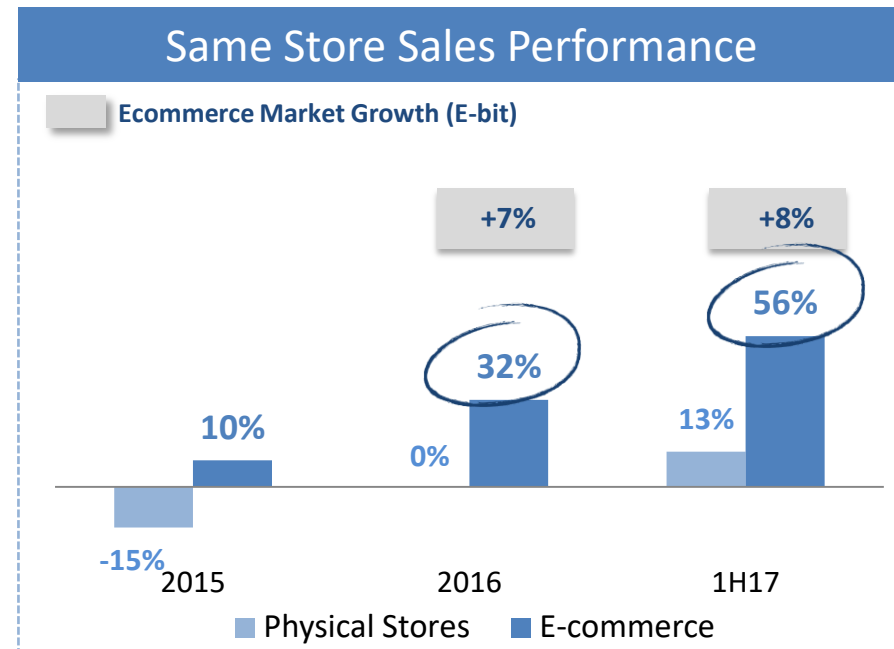Eco
system

Correios

SAP

VTEX
e-Commerce Cloud Software
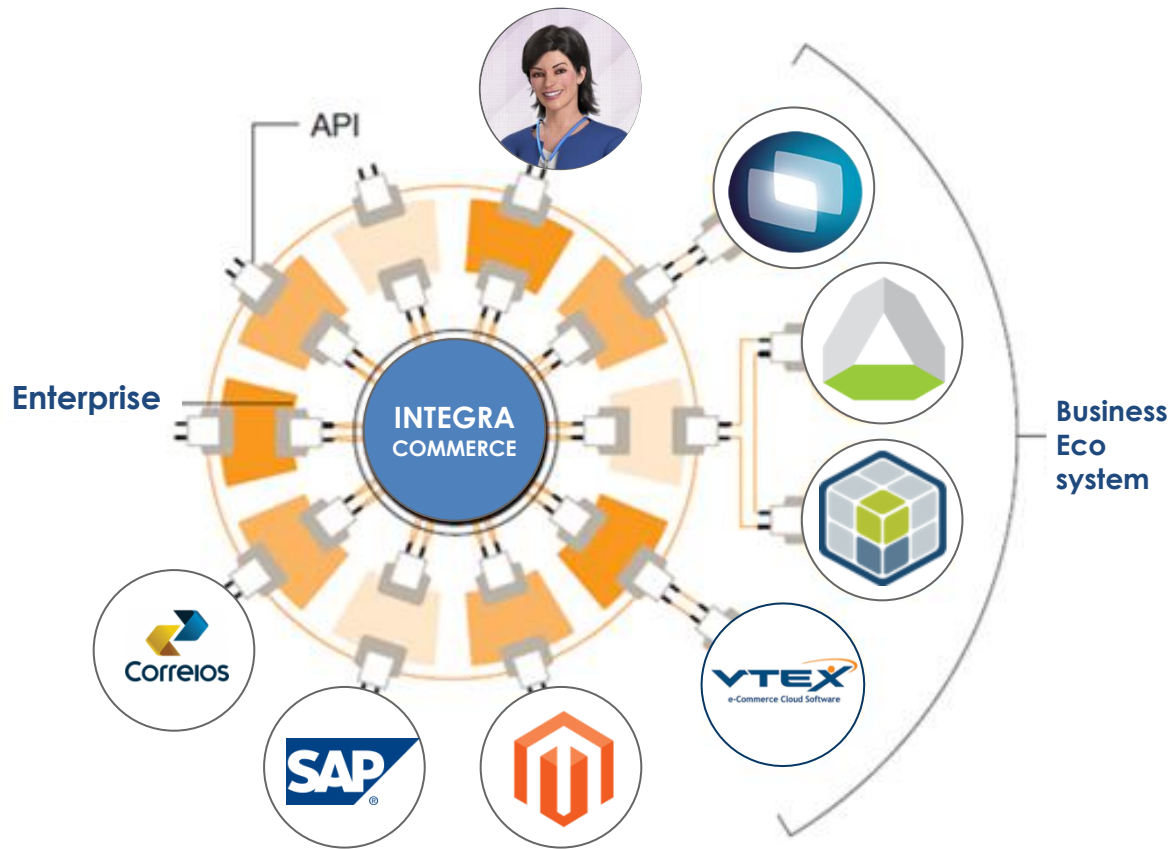
# FINANCIALS

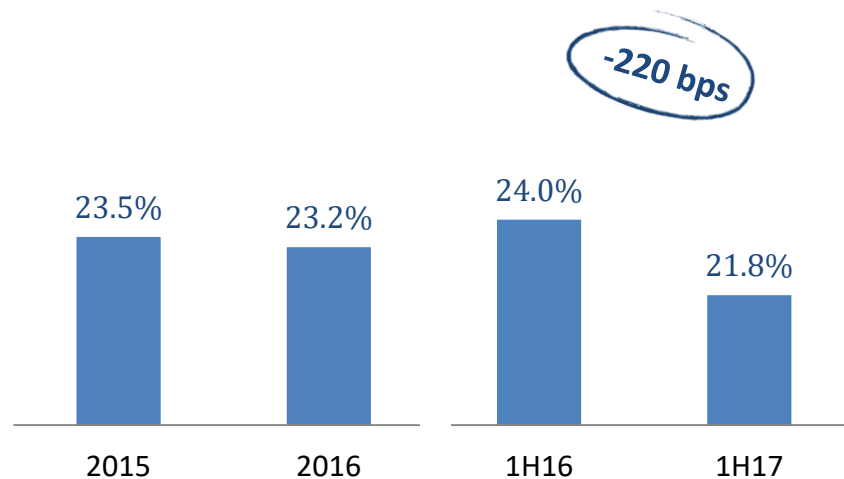# CONSISTENT MARKET SHARE GAINS
# E-COMMERCE PERFORMANCE IS A HIGHLIGHT

## Gross Sales (R$BN)

Total Market Growth (IBGE)

- 8%

+ 8%

10.5 (2015) → 11.4 (2016)

+ 6%

+ 24%

5.3 (1H16) → 6.6 (1H17)

## Same Store Sales Performance

Ecommerce Market Growth (E-bit)

+7%

+8%

**2015:** -15% Physical Stores, 10% E-commerce

**2016:** 0% Physical Stores, 32% E-commerce

**1H17:** 13% Physical Stores, 56% E-commerce

■ Physical Stores   ■ E-commerce
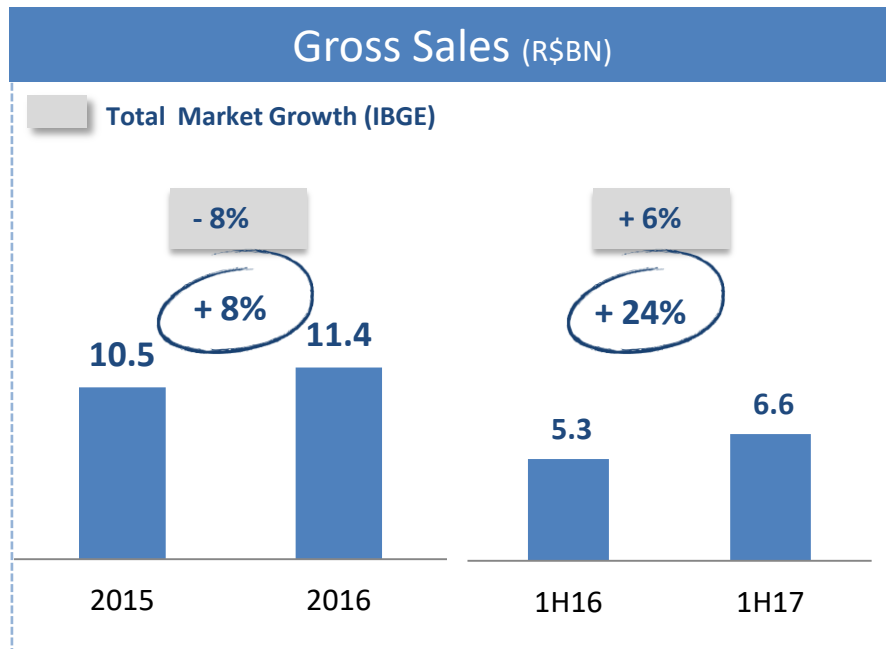
# CONSISTENT GROSS MARGIN AND TIGHT EXPENSES CONTROL E-COMMERCE GROWTH AND OPERATING LEVERAGE



Gross Margin (% NR)

- 2015: 28.7%
- 2016: 30.7%
- 1H16: 31.0%
- 1H17: 30.3%
- -70 bps

SG&A (% NR)

- 2015: 23.5%
- 2016: 23.2%
- 1H16: 24.0%
- 1H17: 21.8%
- -220 bps
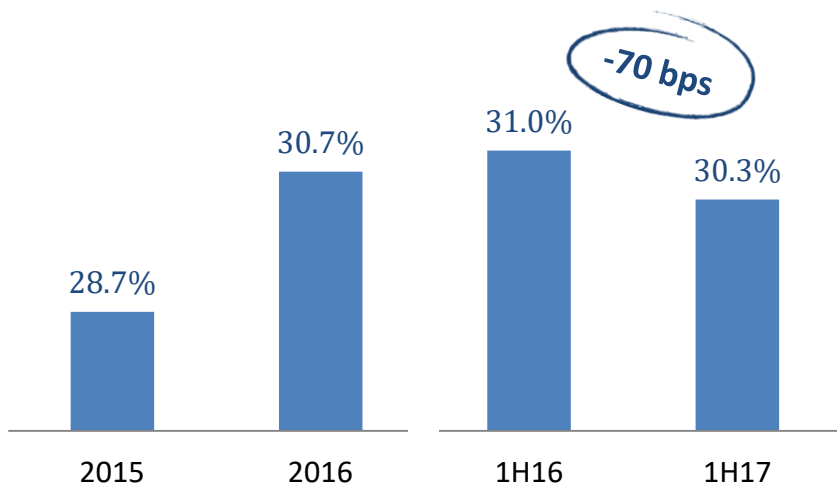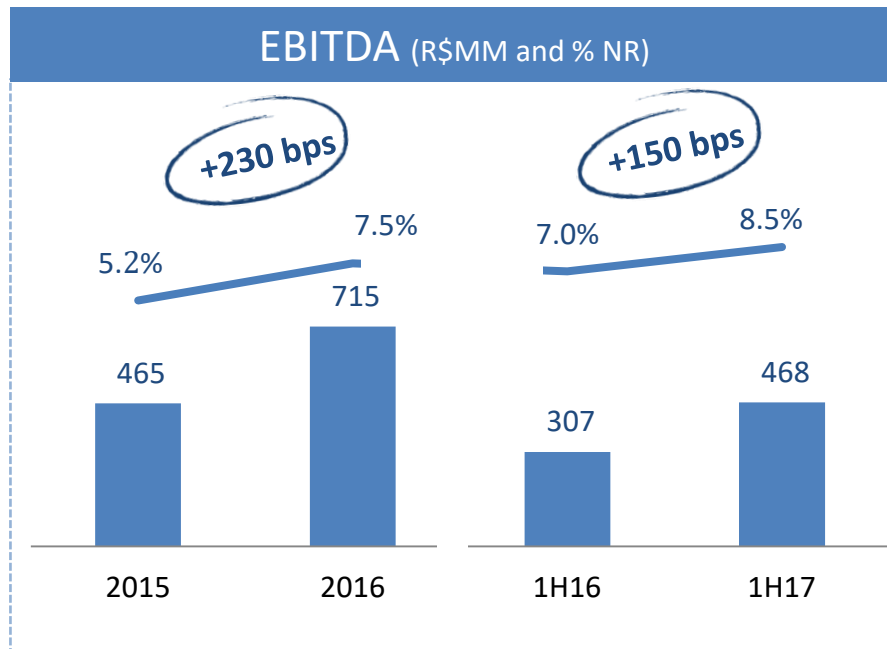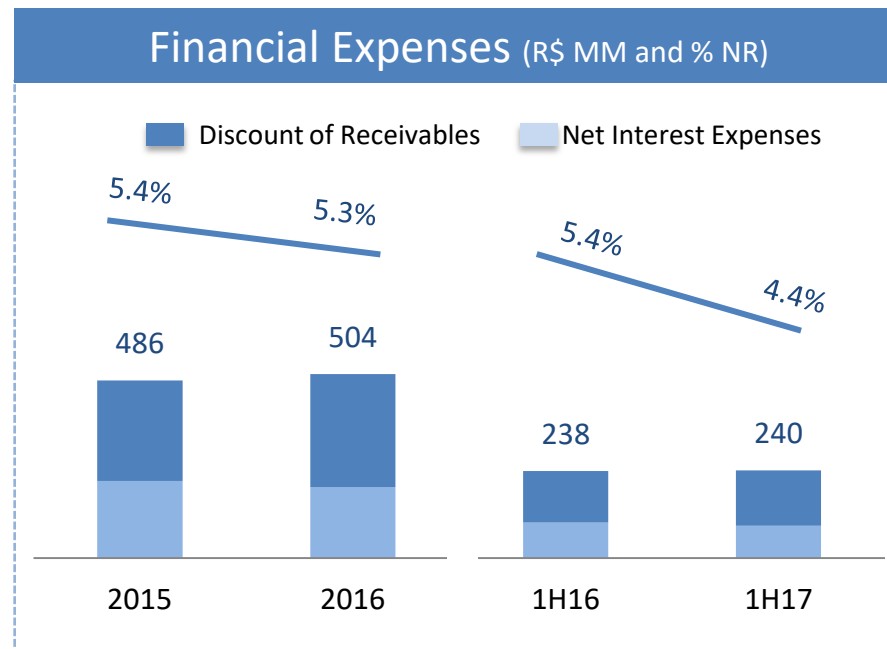
# HIGHER EBITDA REFLECTS SALES PERFORMANCE, E-COMMERCE CONTRIBUTION AND EXPENSES CONTROL

## EBITDA (R$MM and % NR)

+230 bps

5.2%
7.5%

465
715

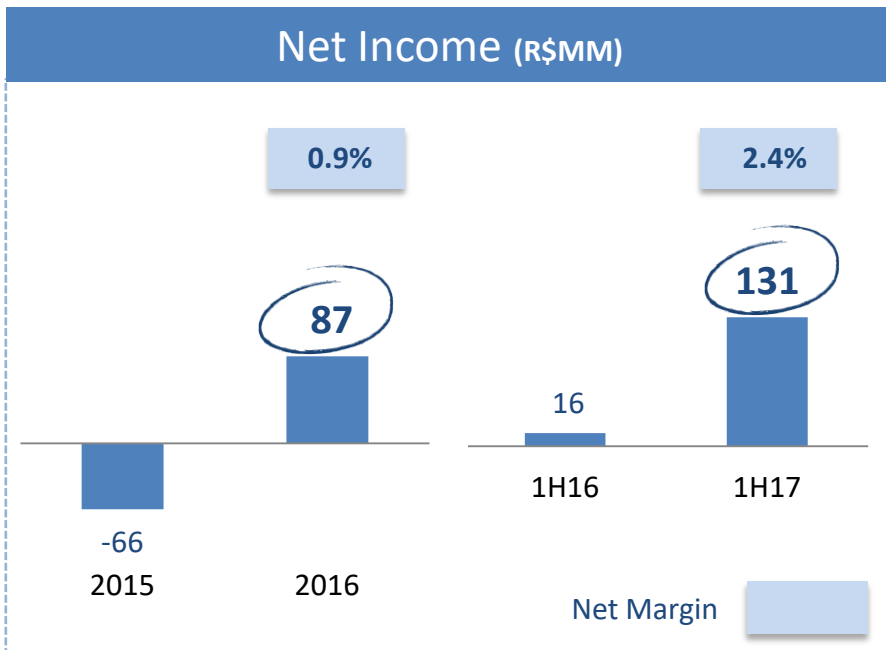2015
2016

+150 bps

7.0%
8.5%

307
468

1H16
1H17

## Financial Expenses (R$ MM and % NR)

■ Discount of Receivables    ■ Net Interest Expenses

5.4%
5.3%

486
504

2015
2016

5.4%
4.4%

238
240

1H16
1H17

# HIGHER NET INCOME, RETURN ON INVESTED CAPITAL (ROIC) AND ON EQUITY (ROE)



## Net Income (R$MM)

- 0.9%
- 2.4%
- 131
- 87
- 16
- -66
- 2015
- 2016
- 1H16
- 1H17

Net Margin

## ROIC and ROE

- 30%
- 35%
- 20%
- 6%
- 14%
- -11%
- dec-15
- dec-16
- jun-17

ROIC  ROE
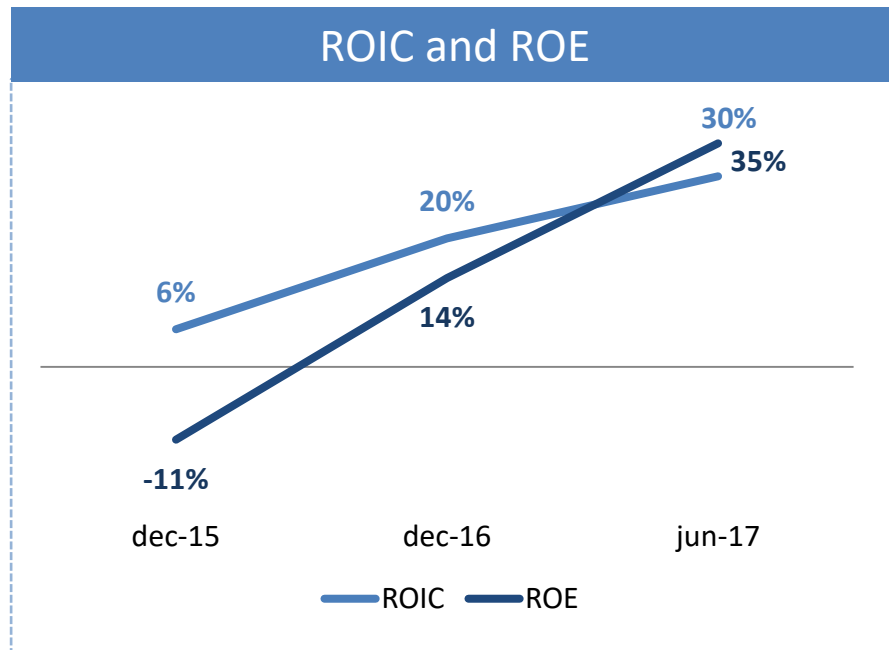
# WORKING CAPITAL IMPROVEMENTS WITH CONSISTENT NET DEBT REDUCTION

## Working Capital (R$MM)

- 631

- 444

| dec-14 | dec-15 | dec-16 | jun-16 | jun-17 |
|--------|--------|--------|--------|--------|
| 311 | -61 | -320 | 333 | -111 |

## Net Debt (R$ MM)

| 1,4 x | 1,4 x | 0,6 x | 2,0 x | 0,6 x |
|-------|-------|-------|-------|-------|

- 418

- 515

| dec-14 | dec-15 | dec-16 | jun-16 | jun-17 |
|--------|--------|--------|--------|--------|
| 848 | 661 | 430 | 1.034 | 520 |

Net Debt / EBITDA

THANK YOU