



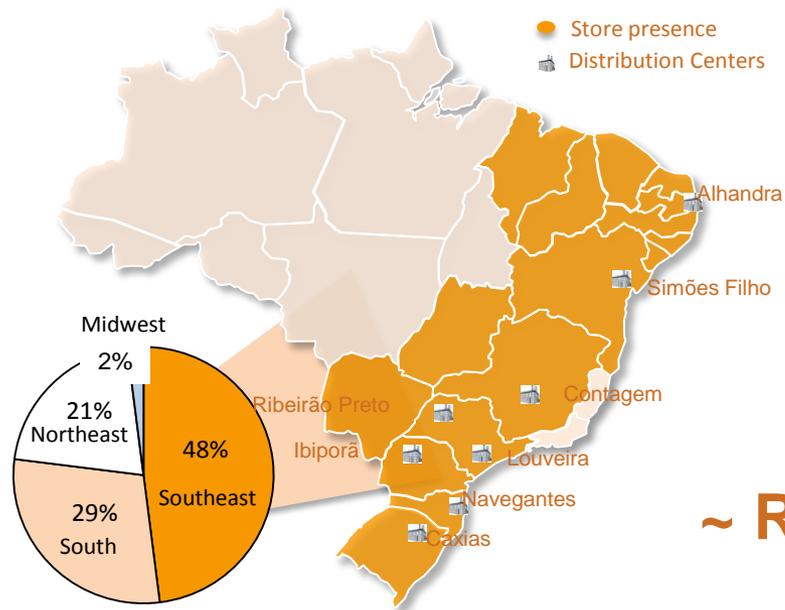
## Magazine Luiza – September 2014

Magazine Luiza  
Overview

Magazine Luiza  
Strategy

Magazine Luiza  
Financials

# Our figures



**736** stores

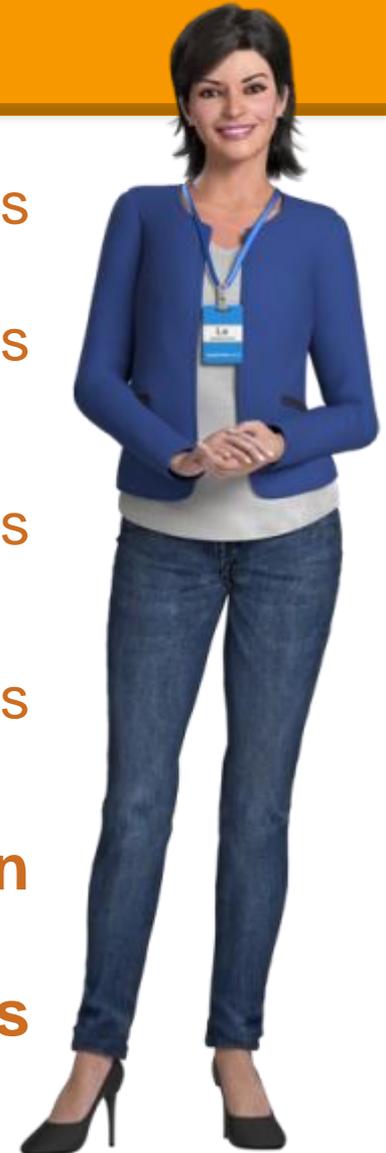
**24,000** employees

**36 Mn** customers

**~ R\$ 10 billion** Gross Sales

**Focus on people and innovation**

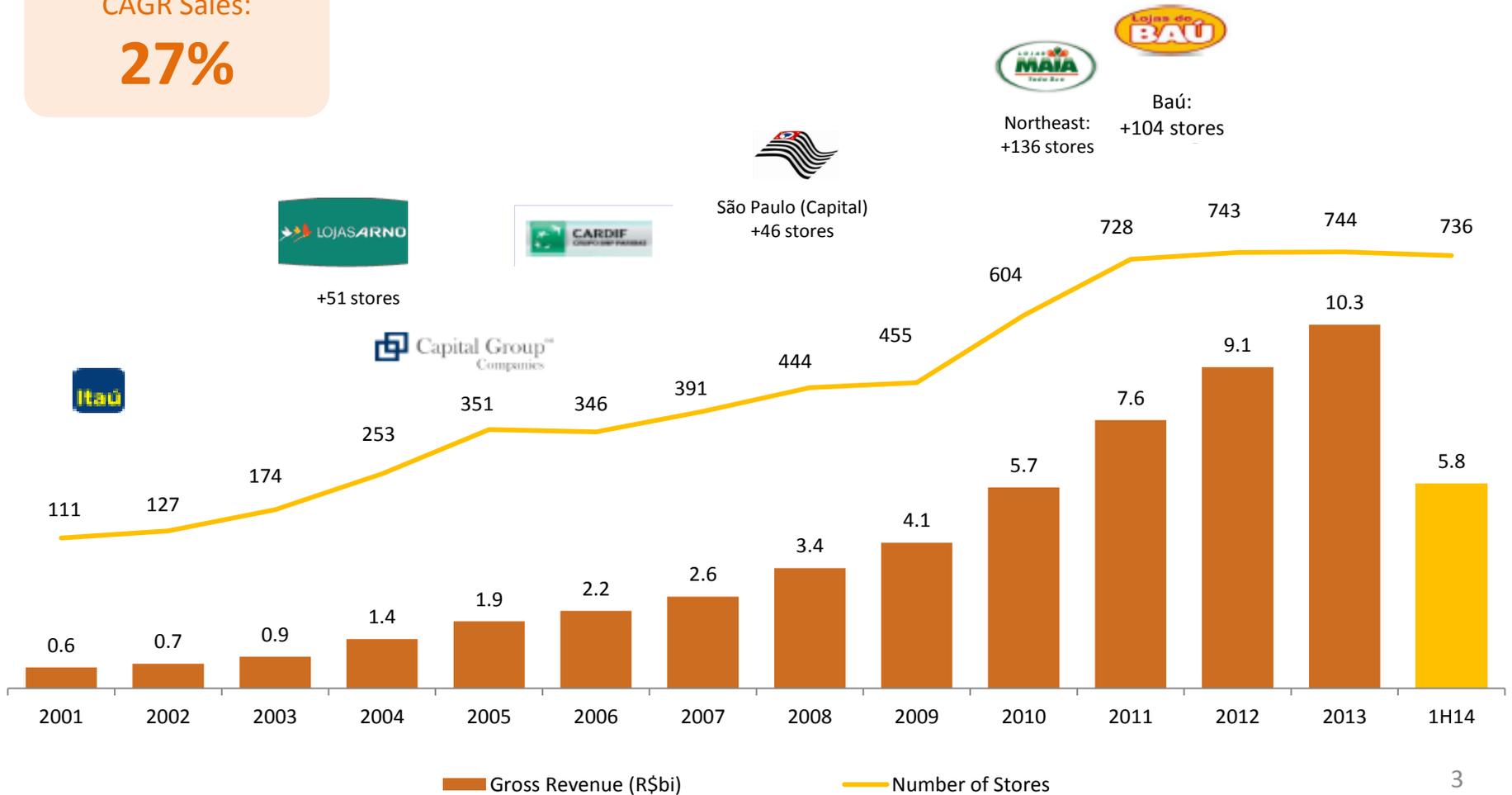
**Target middle class**



# Our Timeline

CAGR Sales:

**27%**



# Integrated business model

## Single operating platform

## Serving multiple channels



Conventional stores



Virtual stores



E-commerce



Teleshopping



Mobile



magazine você

# Overview

# Strategy

# Financials



## magazineluiza vem ser feliz

## magazineluiza virtual stores

## magazineluiza.com vem ser feliz

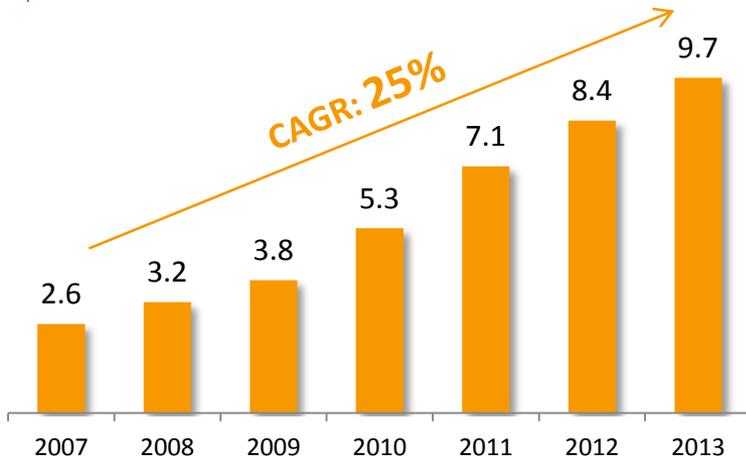
## LUIZACRED

Launch date	1957	1992	1999	2001
Average Sales Area	750 m <sup>2</sup>	150 m <sup>2</sup>	-	-
CAPEX per store	~R\$ 1.5 million	~R\$ 0.3 million	-	-
Average Ticket	R\$ 500.00	R\$ 500.00	R\$ 550.00	-
Number of stores	636 stores	107 stores	1 e-commerce	R\$ 500,00
Geographic presence	16 states	4 states	Nationwide	732 lojas
Number of customer	36 million	36 million	36 million	16 estados
% of total sales	80.9%	4.6%	14.6%	3,6 milhões
Sales 2013*	R\$ 7.8 billion	R\$ 440.0 million	R\$ 1.4 billion	R\$ 3,6 bilhões

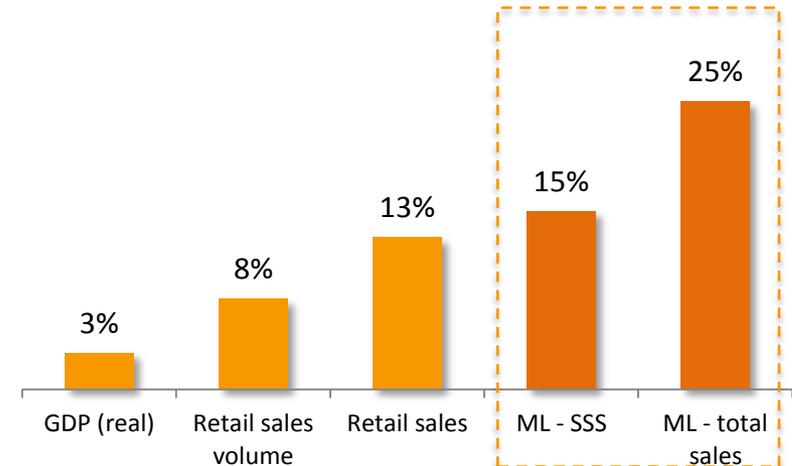
# Magazine Luiza growth: above the market

## GROSS SALES MAGAZINE LUIZA

R\$ billion



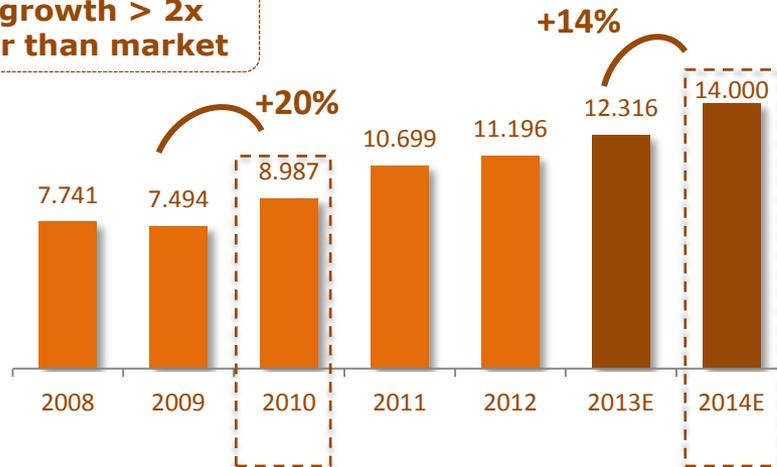
## AVERAGE GROWTH (07-13)



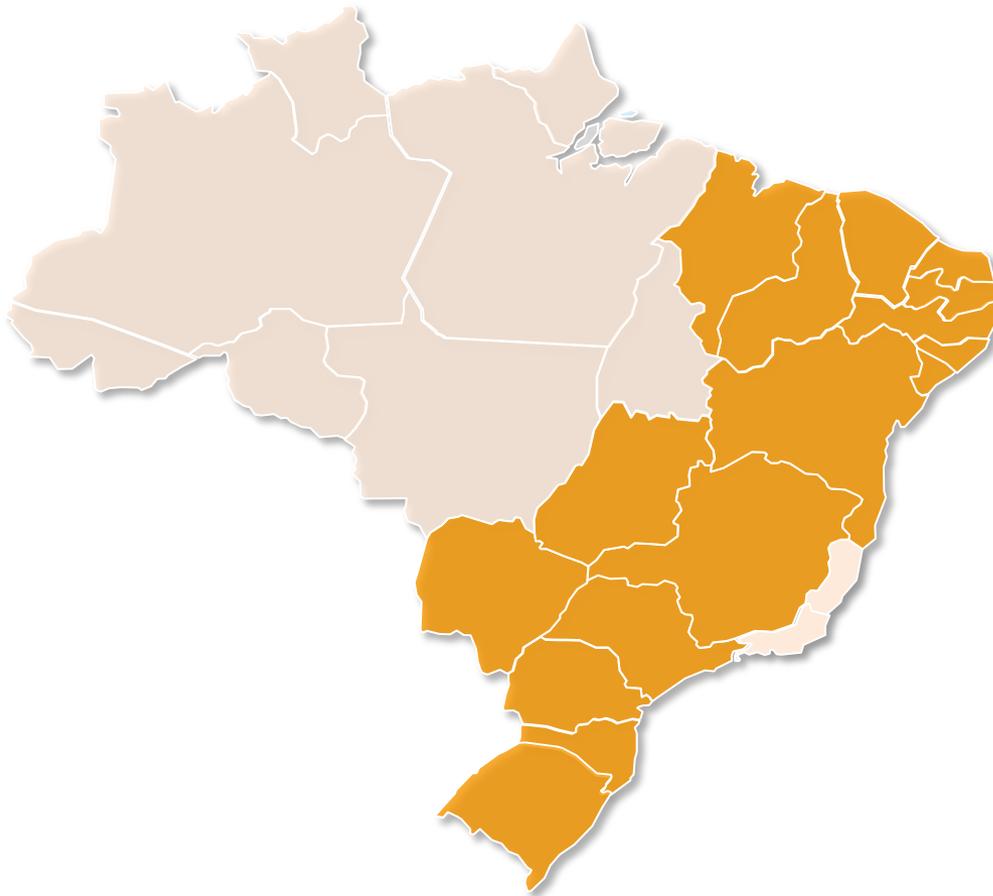
# World Cup and marketing strategy

## TVs PRODUCTION – World Cup

ML growth > 2x faster than market



# Increase in Magazine Luiza's brand awareness



● States with stores

Visits

**+20%**

● States w/o stores

Visits

**+40%**

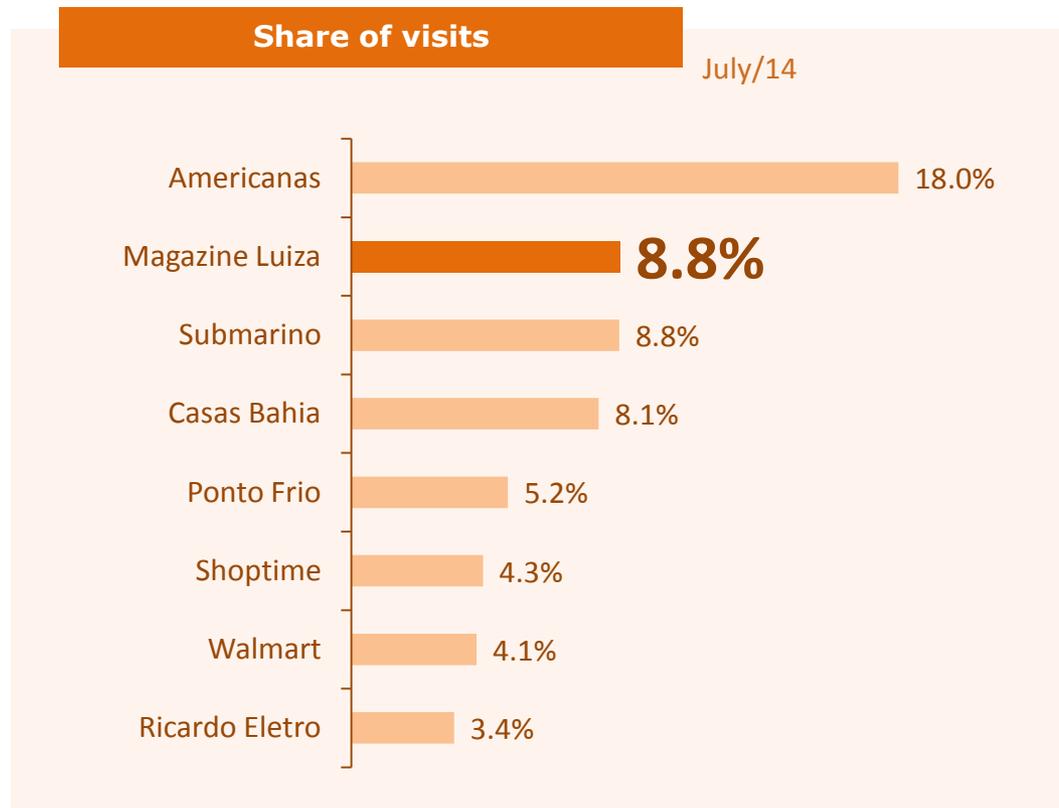
**Increase in local search**

Magazine Luiza Natal **+60%**

Magazine Luiza Recife **+60%**

Magazine Luiza RJ **+50%**

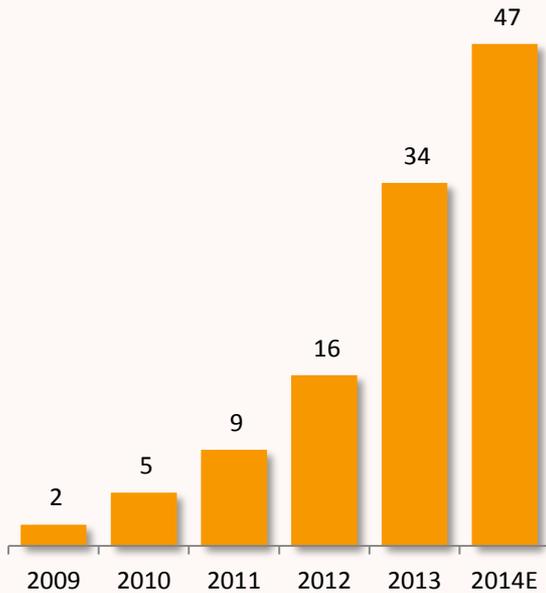
# One of the most visited sites in Brazil retail



# Brazil 4<sup>th</sup> largest smartphones market in the world

Smartphone sales

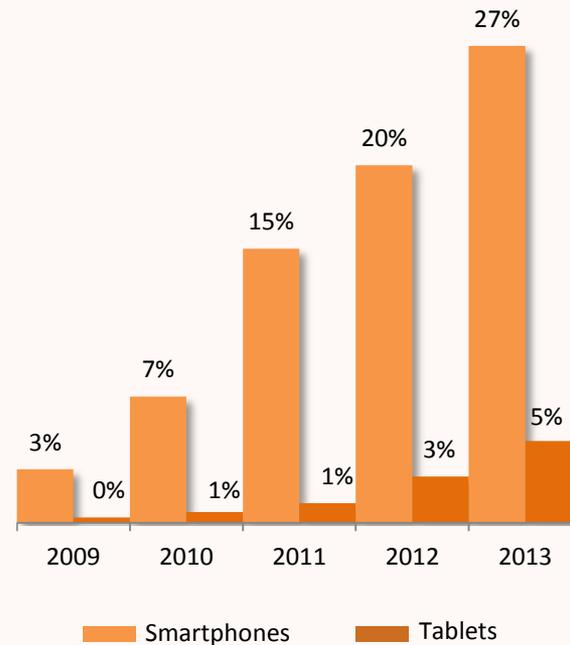
Millions



Source: IDC

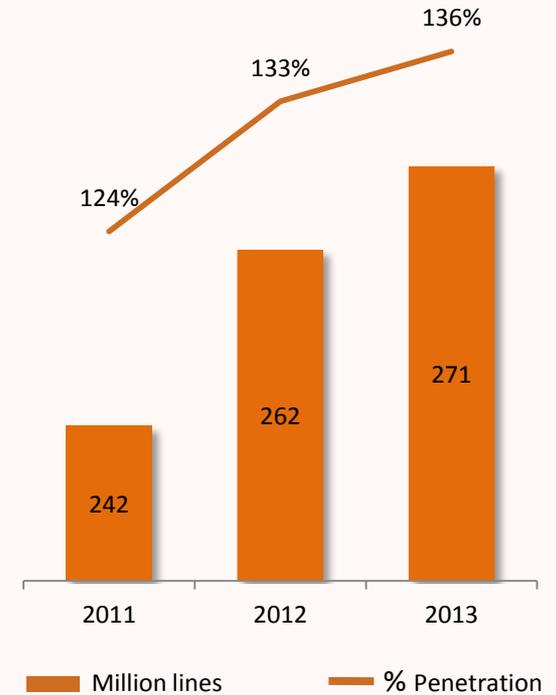
Penetration of Smartphone and Tablets

% of household



Source: Euromonitor

Mobile market

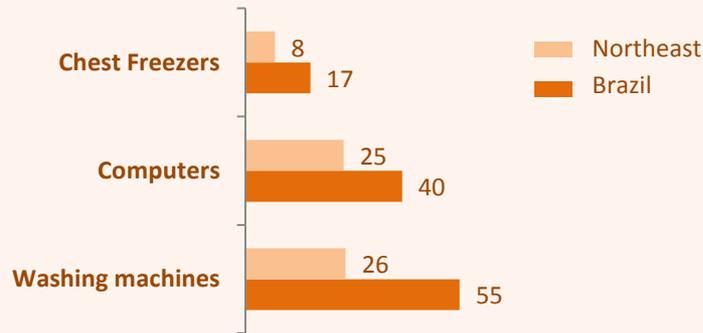


Source: Anatel

# Northeast opportunity

## Product penetration is still low (%)

Source: PNAD

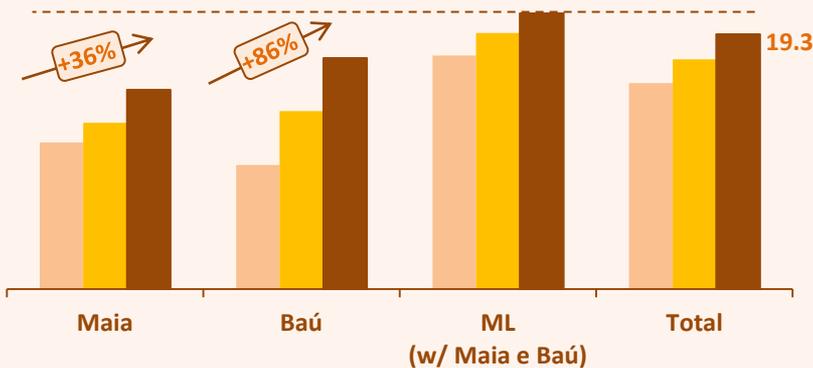


## Sales growth in NE (R\$ million)



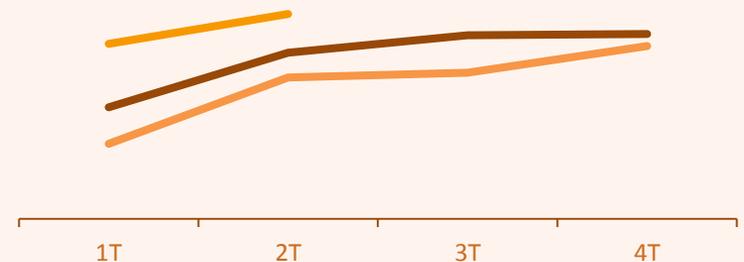
## Productivity trend

1S14  
2013  
2012



## Gross margin trend

2014  
2013  
2012





# Strategy

# Strategic Pillars

- 1 Strong corporate culture, focus on people**
- 2 Integrated multichannel sales platform**
- 3 Strong customer loyalty**
- 4 Well-developed financial services and product offering**
- 5 Well defined corporate governance**

# 1 Ranked as one of the best companies to work for with strong customer service



## Strong rating - Retail

		Retail 2014	Overall 2014	Overall 2013
Magazine Luiza	75	1	12	11
Livraria Saraiva	74	2	13	6
Tok & Stok	71	3	23	nq
Riachuelo	70	4	32	39
Lojas Renner	68	5	42	22
Ultra Farma	68	6	44	nq
Casas Bahia	67	7	50	49
Ponto Frio	65	8	55	42
Lojas Americanas	61	9	61	52
C&A	61	10	64	62
Leader	57	11	72	59
Casa & Vídeo	52	12	83	57
Marisa	51	13	85	nq
Ricardo Eletro	38	14	99	74

Note: Ranking score from zero to 100

Source: Revista Exame/IBRC – jul/14

# Strong corporate culture

## Descentralization

- Store manager “owner’s mentality”, Win-win compensation structure
- Salesperson has some room to change pricing at store level
- Local marketing strategies



## Transparency

- LuizaPortal
- Employee council at store level
- Direct hotline with our president



## Communication

- LuizaTV
- Weekly Ritual
- Morning meetings
- Luiza Radio



# Multichannel strategy



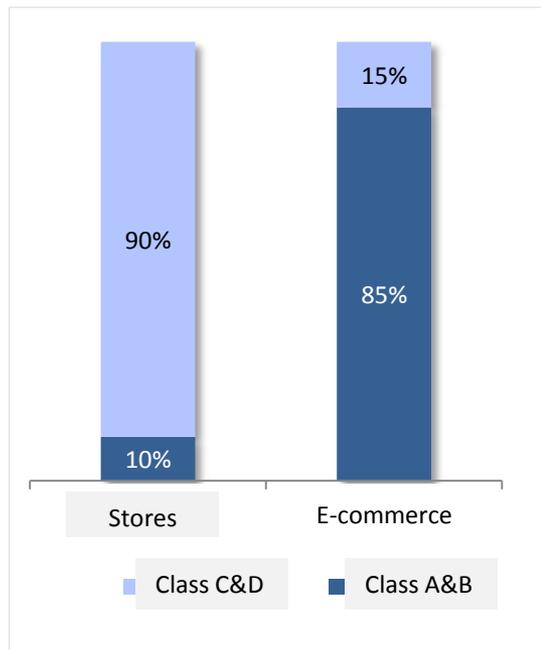
# Multichannel strategy

## Multiple channels, complementary customers

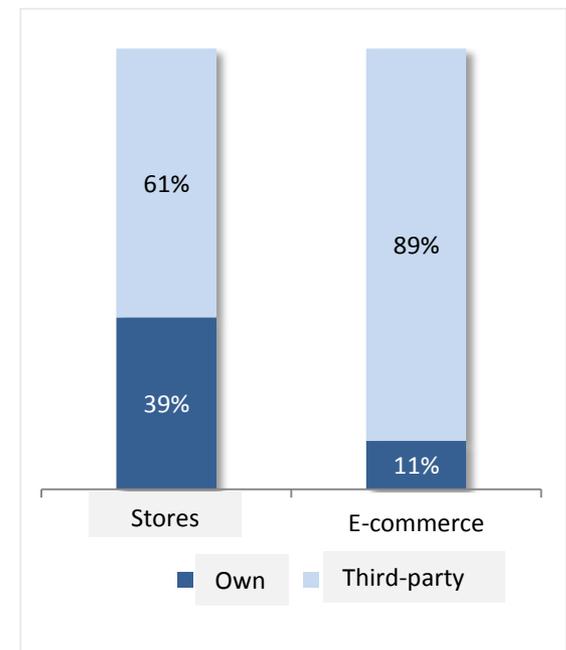
### Low cannibalization



### Customers breakdown



### Payment Mix



# Multichannel Test

	Yes	No
Is the tax ID the same?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Are the distribution centers integrated?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Is the inventory integrated?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Is the management team the same?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Does the company use the same financial and inventory ERP system?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Is the marketing strategy the same for both ?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Can online purchases be exchanged at stores?	<input checked="" type="checkbox"/>	<input type="checkbox"/>

# Multichannel logistics is key

Significant savings in freight and reduction in delivery days



2

# Freight example – Multichannel strategy

## Refrigerator Brastemp Frost Free Duplex 352Liters

**SALVADOR/BA** (ZIP code40060-001)

**PORTO ALEGRE/RS** (ZIP code90020-122)



**Delivery: 6 working days**  
**Freight cost: R\$37.25**

**Delivery: 5 working days**  
**Freight cost: R\$35.80**

**Delivery: 15 working days**  
**Freight cost: R\$69.60**

**A**

**Delivery: 14 working days**  
**Freight cost : R\$129.90**

**Delivery : 11 working days**  
**Freight cost: R\$69.99**

**B**

**Delivery : 12 working days**  
**Freight cost : R\$304.85**

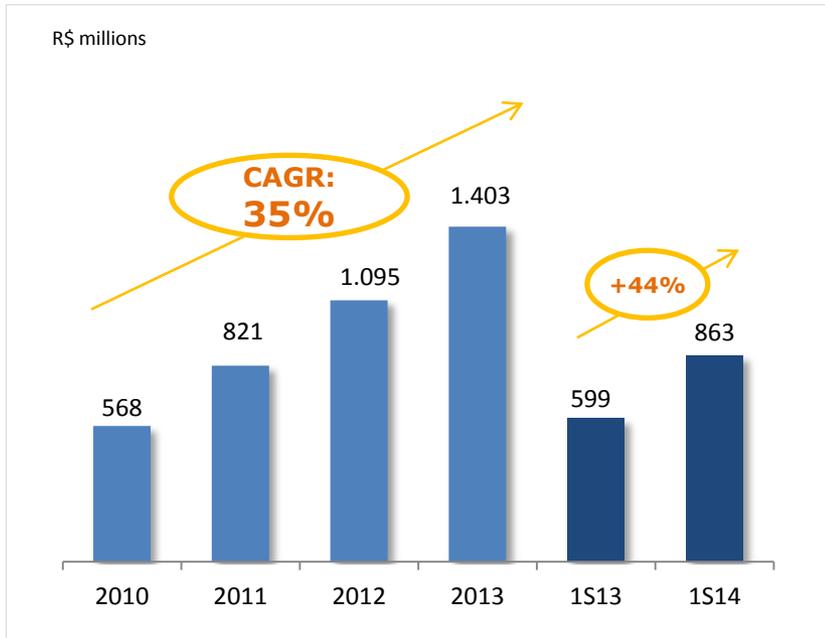
**Delivery : 11 working days**  
**Freight cost : R\$69.99**

**C**

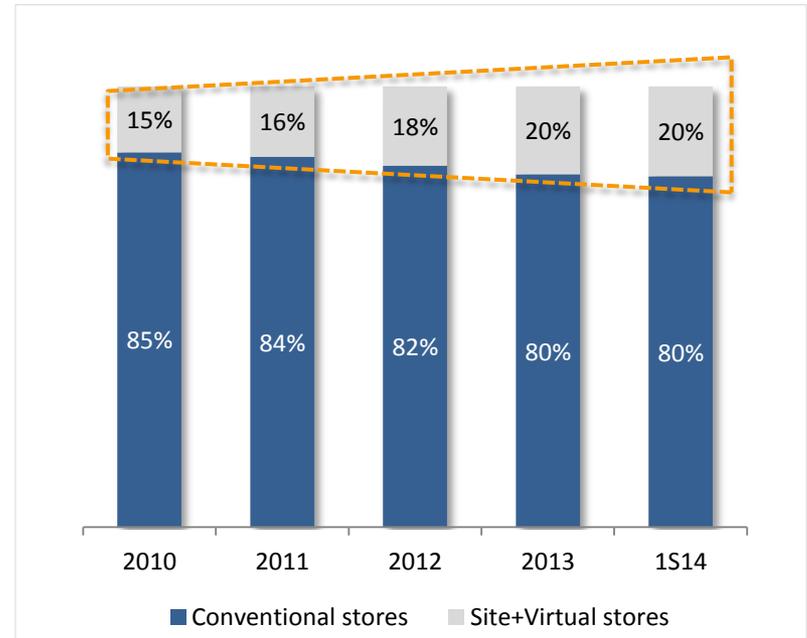
**Delivery : 12 working days**  
**Freight cost : R\$89.99**

# 2 Magazineluiza.com also grows faster than market

**E-commerce gross sales growth**



**Sales breakdown by channel (%)**



# Customer loyalty initiatives

## Golden client

- 1.8 million Golden clients
- 5% of total customer base
- 10% of active customers
- 20% of total sales



## Phantastic markdown sale

- 20 years of markdown sales event
- First mover to offer this in the market
- Sales equivalent to one week's performance
- People form lines a week ahead of the event



# Luizacred

One of the **largest financing** operations in Brazil and an important tool to increase **customer loyalty** and **sales at Magazine Luiza**.

- Available at **every store**
- **Expertise from Itaú Unibanco** in credit offer, collection and *funding*
- Finances roughly **34% of consolidated sales**
- **3.4 million** cards and credit portfolio of **R\$4.3 billion**
- Annual **(ROE) of 30% in 2Q14**
- **EBITDA margin of 15.5% and net margin of 8.8% in 2Q14**



# Luizaseg

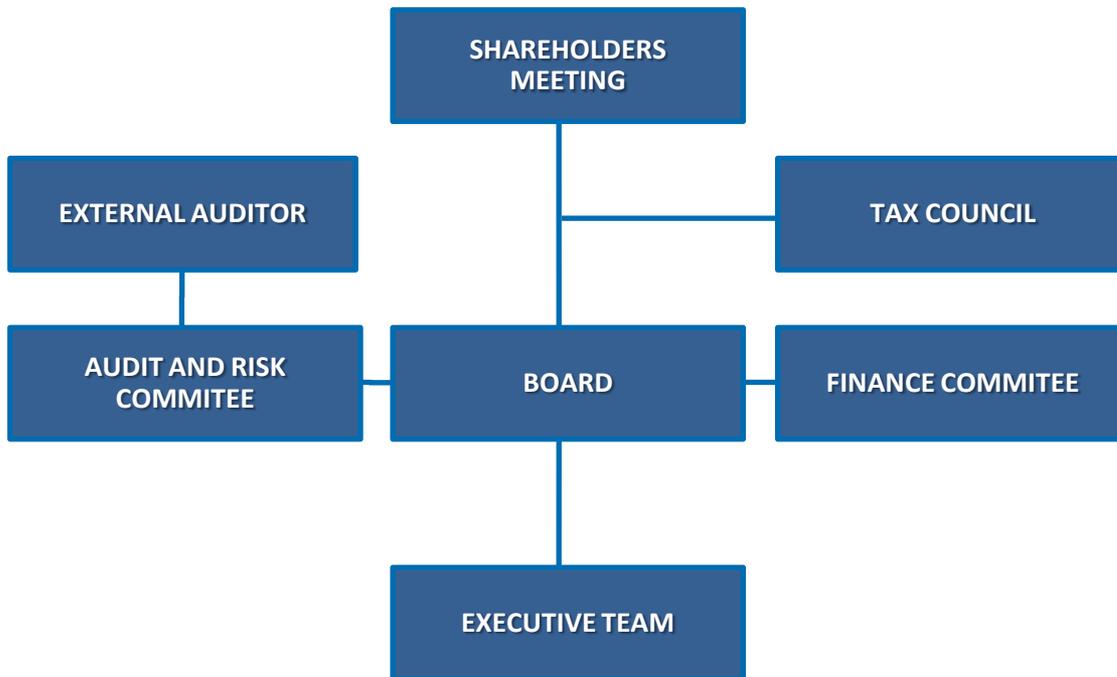
One of the **market leaders** in insurance and **extended warranty**. A solid **partnership** which enhances Magazine Luiza's **competitive positioning** in this segment

- **Extended warranty**, life, residential and personal accident insurance policies
- A network of more than **3,000 technical assistance** agencies throughout the country
- **Gross revenues of R\$80 million** in 2Q14 (+66.0%)
- **Strong cash flow generation**
- **Over R\$250 million** in cash and short term investments



5

# Well developed corporate governance



Experienced controlling shareholders

35-year shareholders agreement

Independent board members since 2005

Aligned compensation and retention plan for senior management

Tax council since 2012

Audit committee head by independent member

Agile accounting process for earnings release despite complex group structure

# Financials

# 2Q14 Highlights

## Sales

- Net revenue growth of 28.5% in 2Q14: SSS increase of 24,5% (+44,1% in e-commerce and +21.3% in stores)

## Operating Expenses

- Strong operating leverage: dilution of 160 bps in 2Q14 (SG&A expenses up 19.9% vs. sales growth of 28.5% )

## EBITDA

- EBITDA increased by 40.3% yoy to R\$133.0 million in 2Q14, for 50bps expansion in EBITDA margin to 5.7%

## Luizacred

- Equity income jumped by 79.9% yoy in 2Q14 to R\$18.1 million, equivalent to ROE of 30%

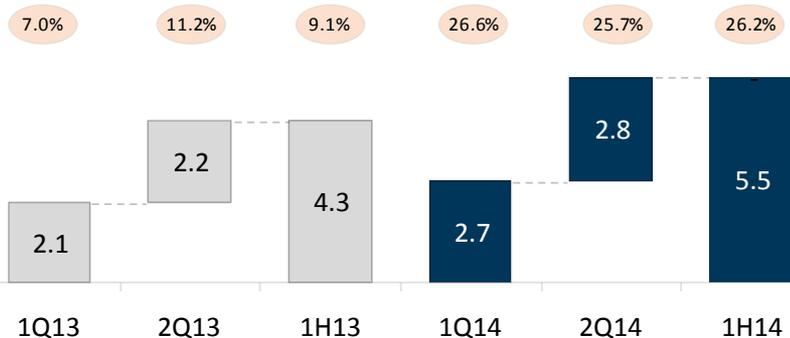
## Net Income

- Net income increased by 130.6% to R\$26.6 million in 2Q14, for net margin of 1.1%

# Sales Performance

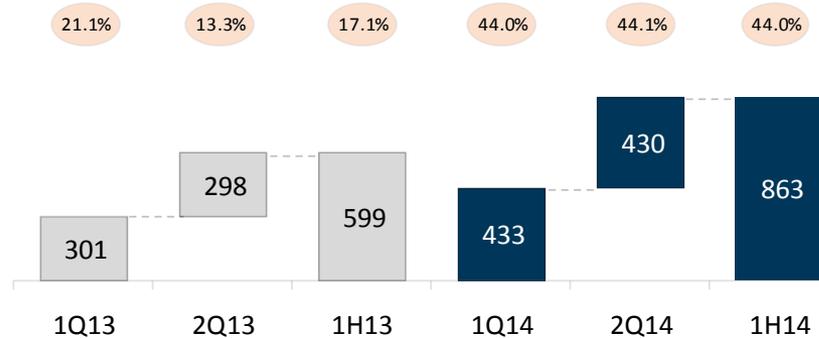
## Gross Revenue - Consolidated

R\$ billion

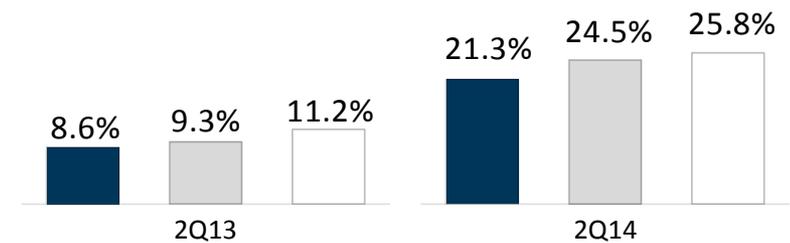


## Gross Revenue - Internet

R\$ million



## Same-Store Sales Growth



- Same-Stores Sales Growth (Physical Stores)
- Same-Stores Sales Growth (including e-commerce)
- Total Retail Growth

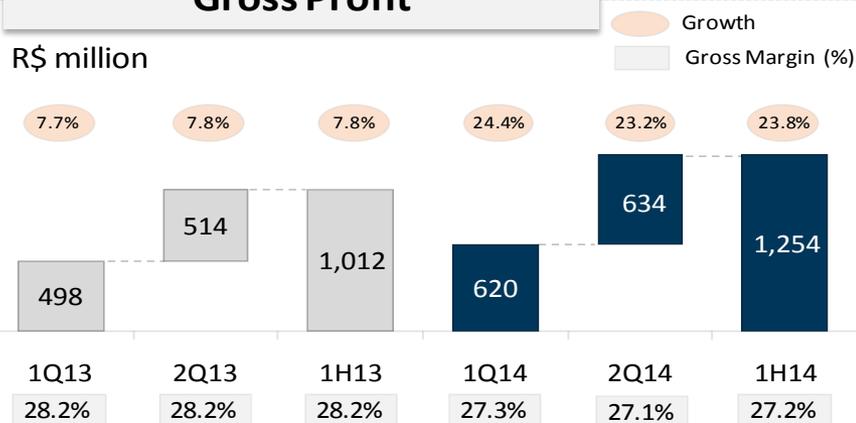
## Comments

- Net revenue up 28.5% in 2Q14
  - 24.5% SSS growth: SSS of 21.3% in stores and 44.1% in e-commerce
- World Cup sponsorship on Globo television network fueled sales increase at stores, but specially online given nationwide media coverage
- Building for you (Prédio Pra Você)

# Gross Profit, Operating Expenses and Equity Income

## Gross Profit

R\$ million



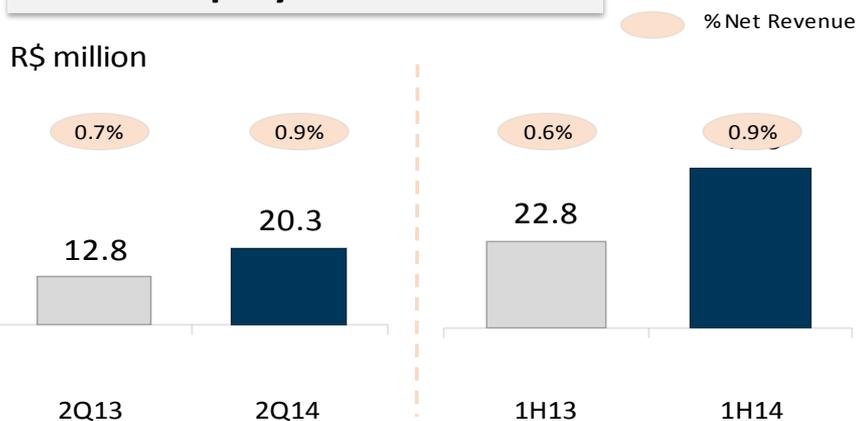
## Operating Expenses

R\$ million



## Equity Income

R\$ million



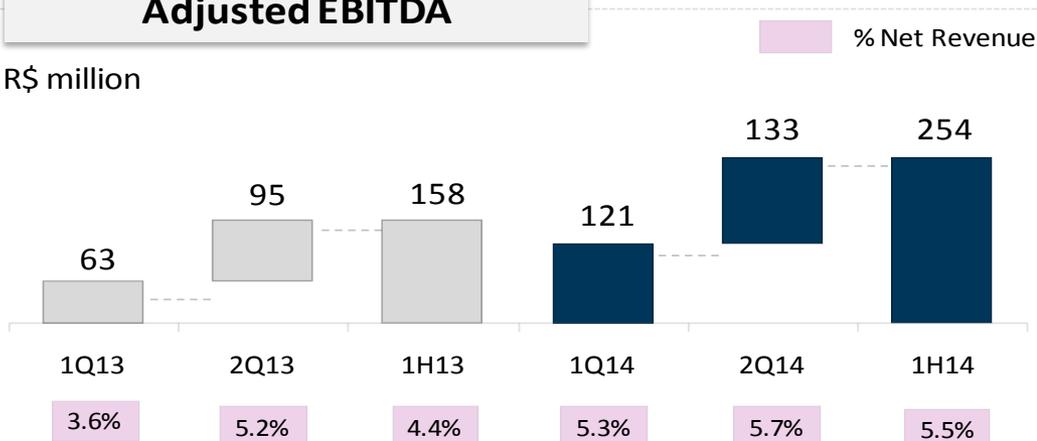
## Comments

- Gross Profit**
  - Increase of 23.2% in 2Q14 yoy to R\$633.7 million
  - Margin drop due to mix and tax effect (ST)
- Operating Expenses**
  - Dilution of 150 bps on total operating expenses versus 2Q13
- Equity Income**
  - Better profitability of Luizacred
    - EBITDA margin up to 15.5% in 2Q14 (from 10.5% in 2Q13)
    - Net margin of 8.8% in 2Q14 (from 5.7% in 2Q13)

# EBITDA

## Adjusted EBITDA

R\$ million

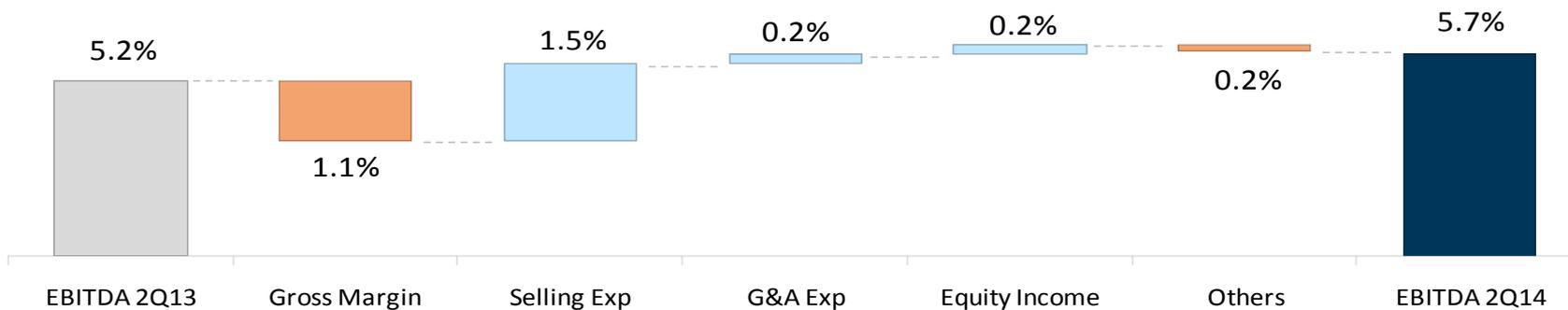


## Comments

- EBITDA**
  - EBITDA margin increase of 50bps to 5.7% in 2Q14.
  - Positive contribution from: i) sales performance across all channels; ii) good dilution of operating expenses and iii) solid equity income
  - EBITDA margin increase of 110 bps *versus* 1H13 (5.5% in 1H14)

## Adjusted EBITDA Performance

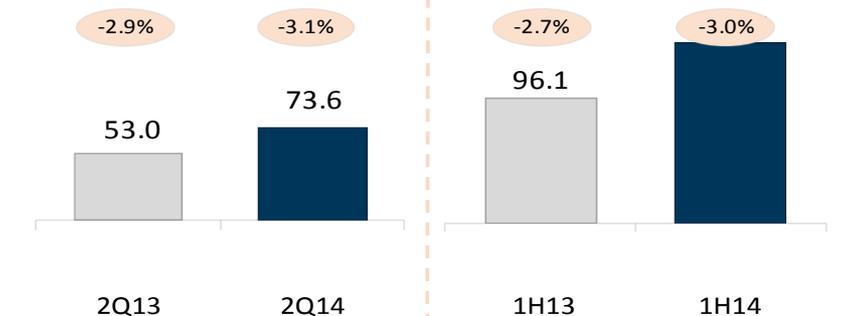
% net revenue



# Financial Results, WK and Net Debt

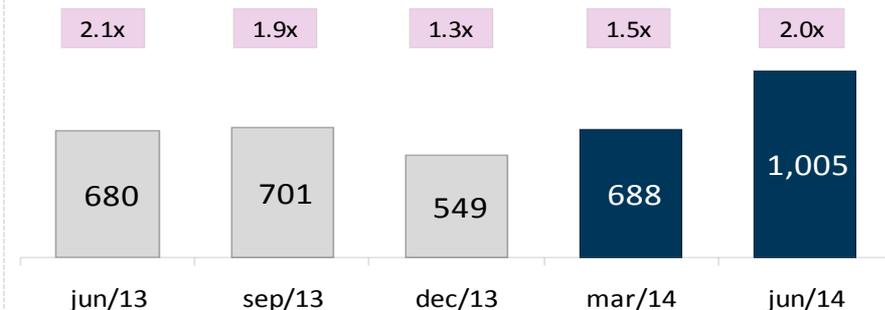
## Adjusted Financial Results

R\$ million



## Net Debt

Net Debt/EBITDA



## Working Capital

% gross revenue



## Comments

### Adjusted financial results

- Increase of 38.8% in net financial expenses to 3.1% of net sales due to higher CDI rate in the period and discounting of receivables

### Working Capital

- Increase in working capital needs to 4.6% of gross sales in 2Q14, but faster inventory turns.

### Net Debt

- Decrease in leverage to 2.0x EBITDA in 2Q14, from 2.1x in 2Q13

# Net income

## Net Income

R\$ million



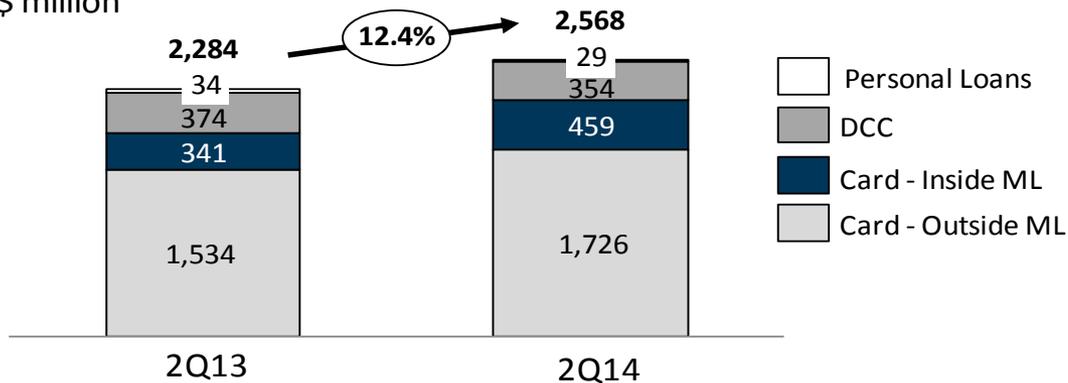
## Comments

- **Net income more than doubled yoy in 2Q14**
  - Adjusted net income growth of 130.6% to R\$26.6 million in 2Q14, for net margin of 1.1%
  - In 1H14 net income reached R\$47.2 million for net margin of 1.0%

# Luizacred

## Revenue Mix

R\$ million



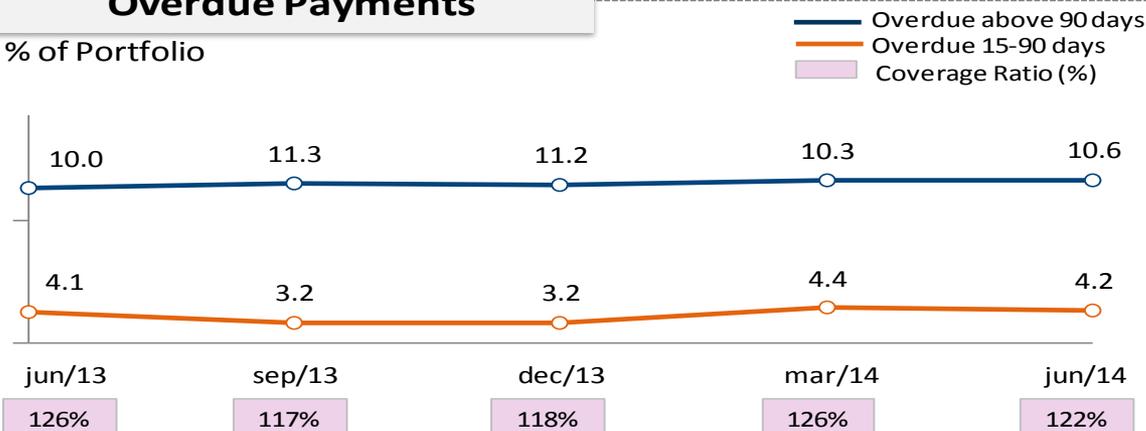
## Comments

- Gross billings increase of 12.4% in 2Q14
- Participation in DCC and Luiza Card sales of 34% in 2Q14 (from 36% in 2Q13)

2Q14

## Overdue Payments

% of Portfolio



## Comments

- Provisions over total sales (credit and service revenues) drop from 44.1% in 2Q13 to 36.7% in 2Q14
- Provision for bad debts decreased from 4.2% in 2Q13 to 3.5% in 2Q14
- Conservative credit approach: low approval rates and close monitoring of overdue payments

# Consolidated Balance Sheet

ASSETS (R\$ million)	jun-14	dec-13	jun-13
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	287,4	280,3	176,6
Securities	283,8	491,3	539,0
Accounts Receivable	577,4	530,6	458,4
Inventories	1.144,2	1.251,4	1.051,1
Related Parties	87,8	108,9	86,3
Taxes Recoverable	193,4	218,6	230,5
Other Assets	57,1	41,0	73,2
<b>Total Current Assets</b>	<b>2.631,1</b>	<b>2.922,0</b>	<b>2.615,2</b>
<b>NON-CURRENT ASSETS</b>			
Accounts Receivable	3,8	4,7	4,0
Deferred Income Tax and Social Contribution	146,9	139,4	148,3
Recoverable Taxes	159,8	158,8	148,3
Judicial Deposits	187,9	170,1	150,4
Other Assets	48,2	45,4	41,7
Investments in Subsidiaries	287,1	251,7	236,6
Fixed Assets	534,7	540,4	510,8
Intangible Assets	487,9	481,4	436,6
<b>Total Non-current Assets</b>	<b>1.856,3</b>	<b>1.791,9</b>	<b>1.676,8</b>
<b>TOTAL ASSETS</b>	<b>4.487,4</b>	<b>4.713,9</b>	<b>4.292,0</b>

LIABILITIES (R\$ million)	jun-14	dec-13	jun-13
<b>CURRENT LIABILITIES</b>			
Suppliers	1.189,5	1.651,5	1.306,1
Loans and Financing	422,4	425,2	534,8
Payroll, Vacation and Related Charges	153,2	166,6	126,7
Taxes Payable	46,5	41,7	28,5
Related Parties	66,8	73,6	50,9
Taxes in Installments	7,1	8,3	8,9
Deferred Revenue	37,7	36,7	35,6
Dividends Payable	-	16,2	-
Other Accounts Payable	101,7	107,7	80,1
<b>Total Current Liabilities</b>	<b>2.025,0</b>	<b>2.527,6</b>	<b>2.171,5</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans and Financing	1.154,0	895,1	860,4
Taxes in Installments	-	-	0,6
Provision for Tax, Civil and Labor Risks	262,2	245,9	227,3
Deferred Revenue	334,6	349,2	359,9
Other Accounts Payable	1,8	1,5	0,9
<b>Total Non-current Liabilities</b>	<b>1.752,6</b>	<b>1.491,7</b>	<b>1.449,1</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital Stock	606,5	606,5	606,5
Capital Reserve	7,9	5,6	4,2
Treasury Shares	-	(20,1)	-
Legal Reserve	9,7	9,7	4,0
Profit Retention Reserve	39,4	94,5	2,6
Other Comprehensive Income	(0,7)	(1,6)	(1,3)
Accumulated Losses	47,2	-	55,5
Total Shareholders' Equity	709,9	694,6	671,4
<b>TOTAL</b>	<b>4.487,4</b>	<b>4.713,9</b>	<b>4.292,0</b>

# Outlook 2014

## Sales

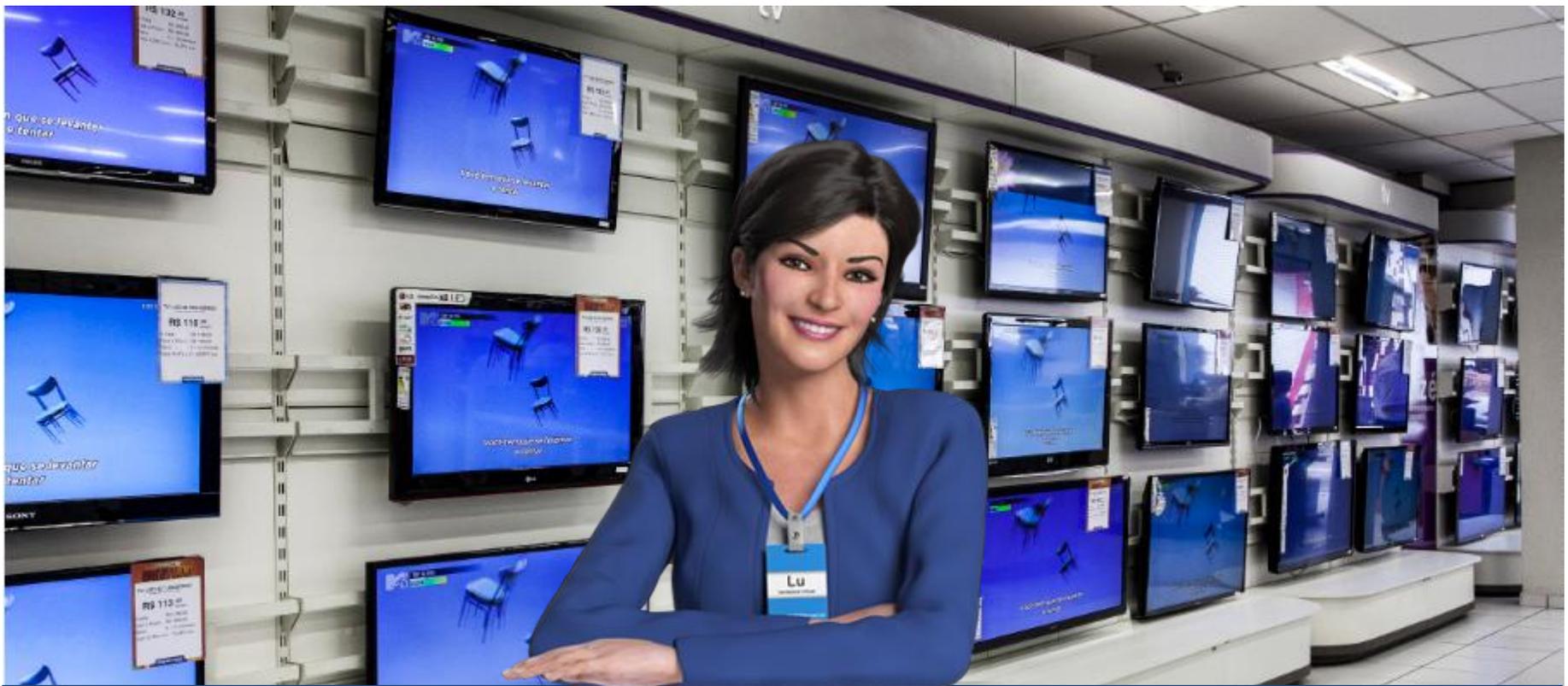
- SSS growth FY2014: low-double-digit
- Better productivity at Baú and Maia stores
- E-commerce growth in FY2014: > 25%

## Gross Margin

- Closing the margin gap between Southeast/South and Northeastern stores
- Inventory and pricing projects underway
- Better sales mix in 2H14 with higher margin categories

## EBITDA Margin

- Additional synergy gains and expense reduction opportunities
- Greater participation in overall mix from services
- Operating efficiency project in Luizacred



## Magazine Luiza – September 2014

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Magazine Luiza

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