

# Magazine Luiza

## 3Q16 Conference Call

October, 31st 2016

# 3Q16 Highlights

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## Sales and Gross Margin

- Sales growth in all channels (+11% of gross revenue)
- Improvement in the performance of physical stores (SSS +5,5%)
- Market-share gains and higher gross margin (+150 bps)

## E-commerce

- 25% of total sales and growth of 24%
- Market-share gains maintaining profitability

## Operating Expenses

- Dilution of 140 bps to 24.5% of net revenue
- Zero Base Budget and Expenses Management Matrix

## EBITDA and Net Income

- EBITDA was 63% higher to R\$180 million (margin of 8.0%)
- Net Income of R\$25 million (margin of 1.1%)

## Working Capital

- Growth of 96% in operating cash generation to R\$184 million
- Better working capital management (reduction of R\$302 million)

## Financial Leverage

- Reduction in net debt by R\$465 million in the last twelve months
- Reduction in adjusted net debt/adjusted EBITDA down from 2.2x to 1.2x

## Luizacred

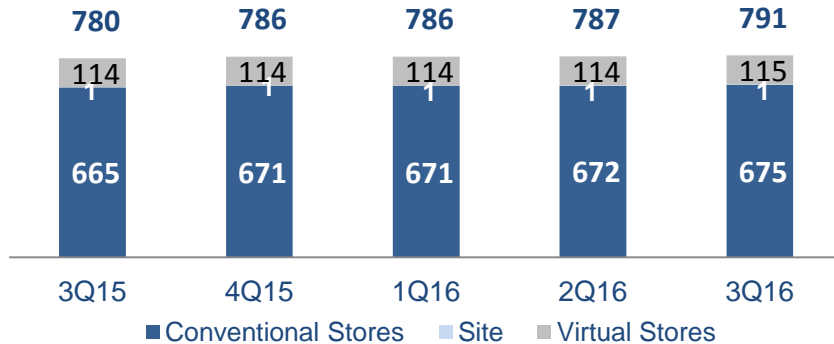
- Reduction in NPL 90 of 170 bps YoY (10.6% in 3Q16)
- Net Income of R\$25 million with ROE of 19%

# Operating Highlights

## Number of Stores

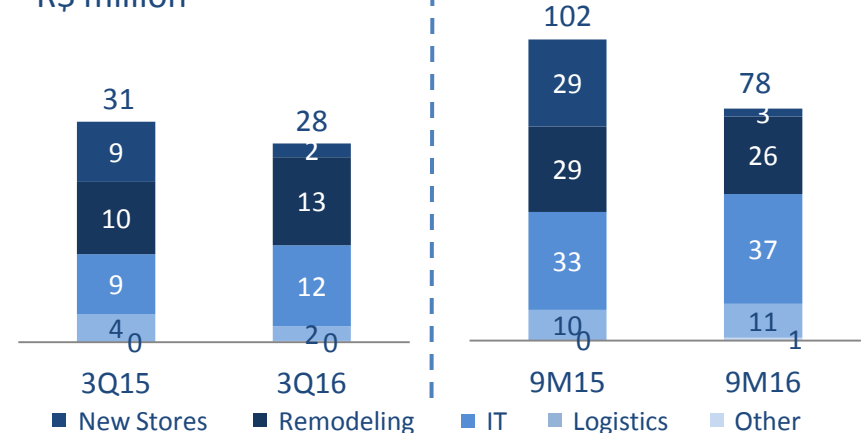
# stores

+11 stores

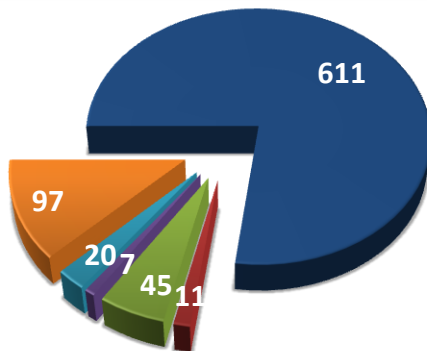


## Capex

R\$ million



## Average Age - Stores



- More than 5 years
- Up to 1 year
- Up to 2 years
- Up to 3 years

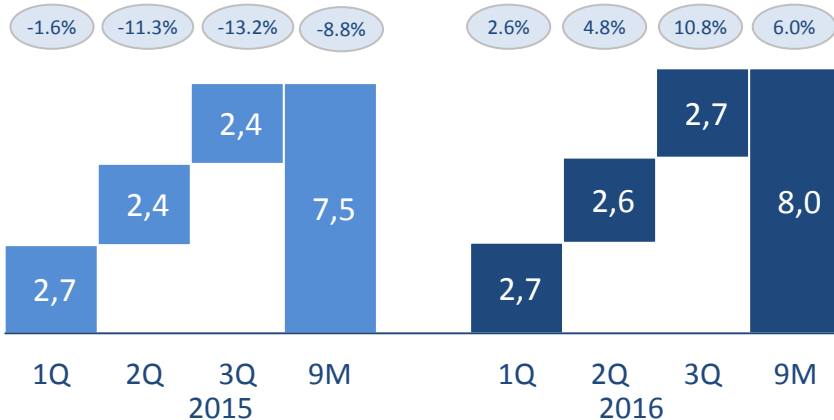
## Comments

- Opened 11 new stores in the last 12 months and 4 new stores in 3Q16
- Around 23% of our stores are in maturation process
- Capex of R\$28 million, 10% lower YoY favored IT and Remodeling upgrades

# Sales Performance

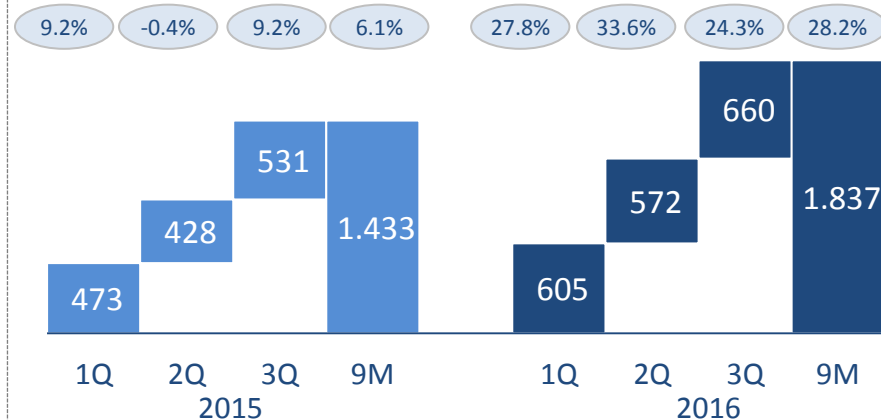
## Gross Revenue - Consolidated

R\$ billion

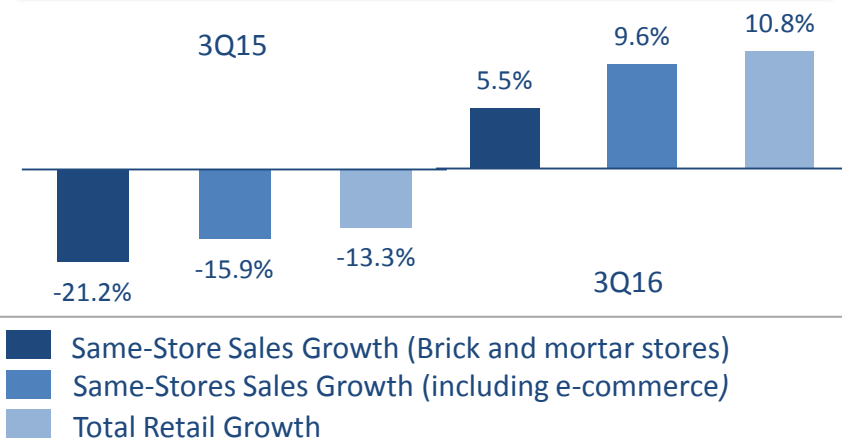


## Gross Revenue - Internet

R\$ million



## Same-Store Sales Growth



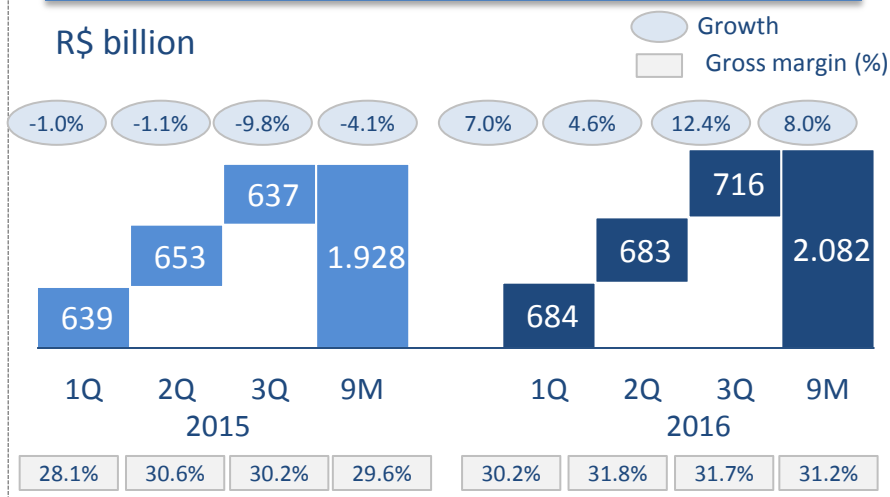
## Comments

- Market share gains in main categories, including telephony, image and white line
- Improved SSS in brick and mortar stores (+5.5%)
- E-commerce accounted for 25% of total sales with 24% growth in 3Q16 vs. 10% market growth (E-bit)
- Market sales of furniture and domestic appliances decreased -8% this year (PMC/IBGE) vs. +6% Company's growth

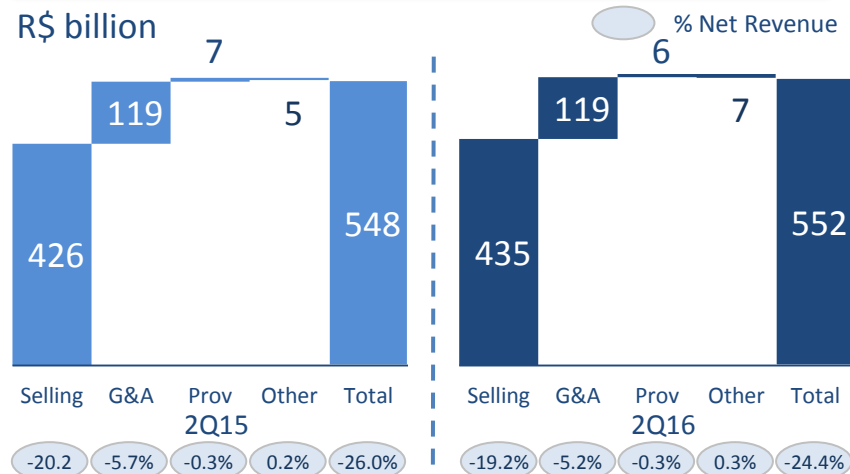
○ Growth over the same period of last year

# Gross Profit, Operating Expenses and Equity Income

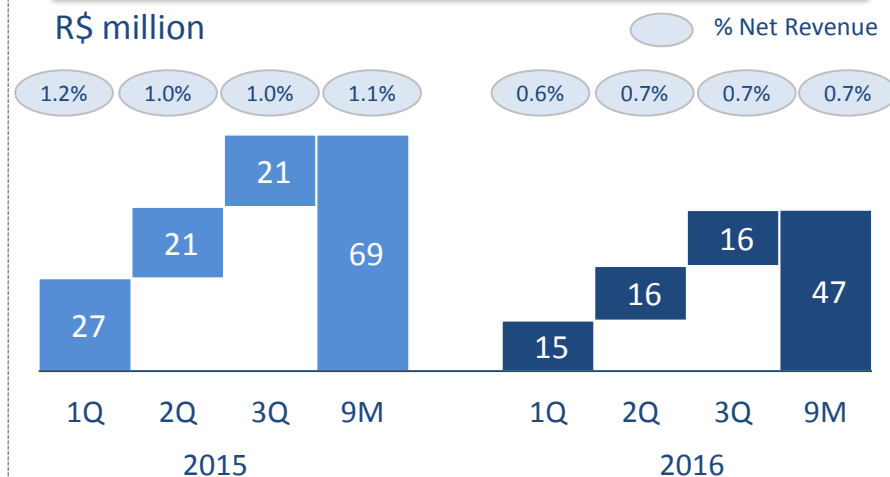
## Gross Profit\*



## Operating Expenses



## Equity Income

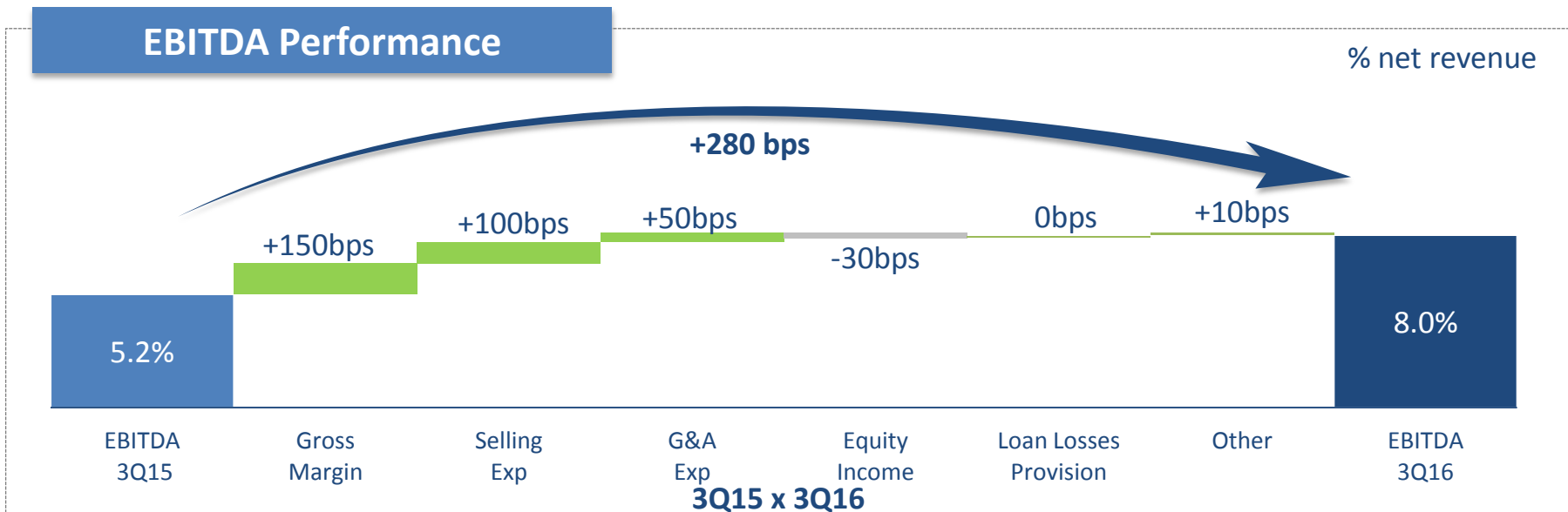
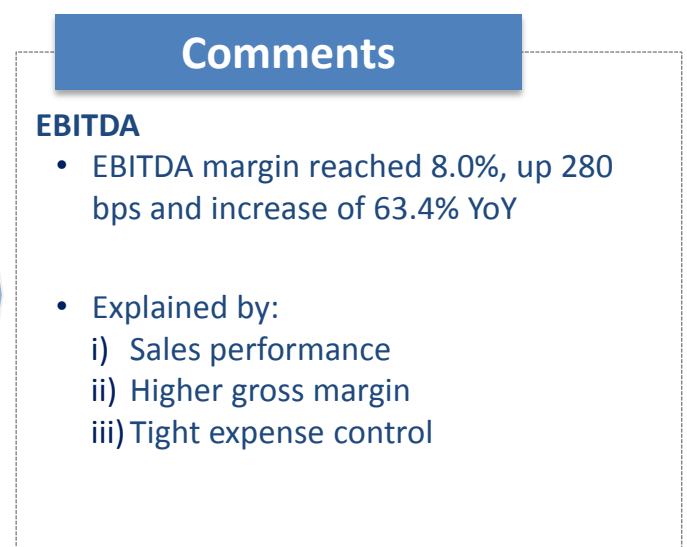
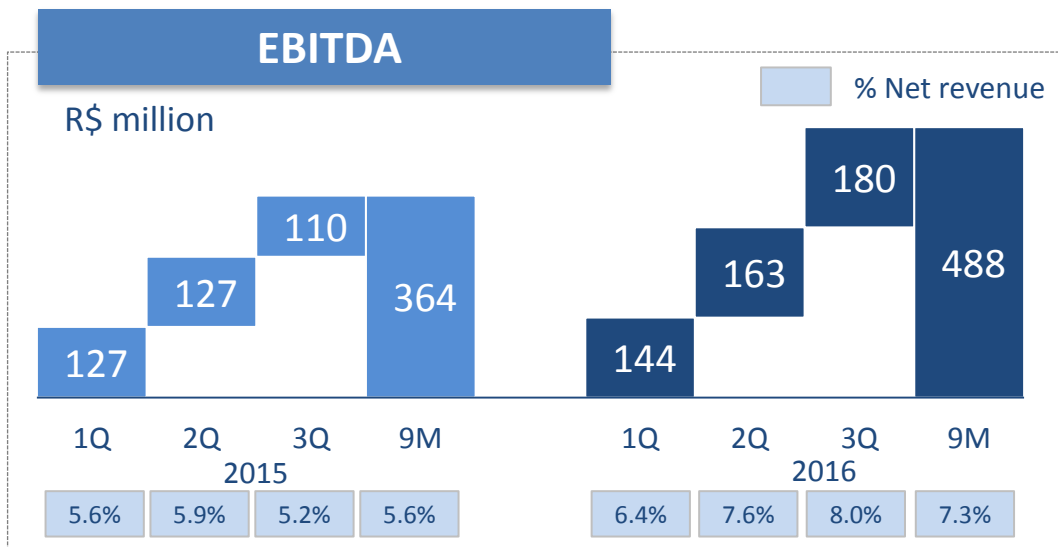


## Comments

- Gross margin**  
 Increased 150 bps to 31.7% in 3Q16 due to:
  - more rational prices in the e-commerce and stores,
  - charging for shipping / assembly and
  - better sales mix
- Operating Expenses**  
 Reduction of 140 bps to 24.5% of net revenue
- Equity Income**  
 Luizacred: Net income of R\$76 million in 9M16  
 Luizaseg: Net income of R\$18 million in 9M16

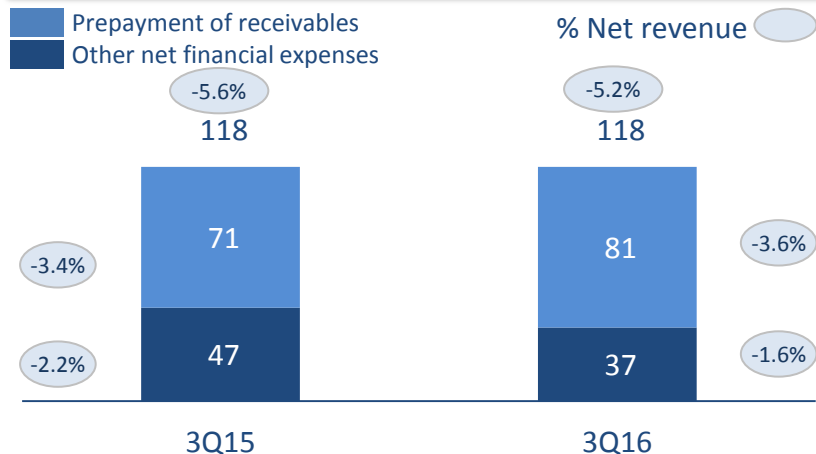
\* Due to the resumed charging of social contributions to the payroll, 2015 figures were reclassified from payroll taxes to selling expenses.

# EBITDA

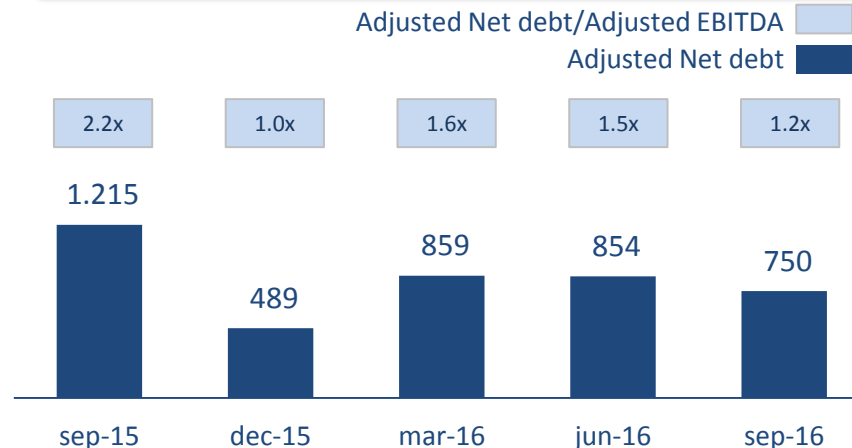


# Financial Results and Working Capital

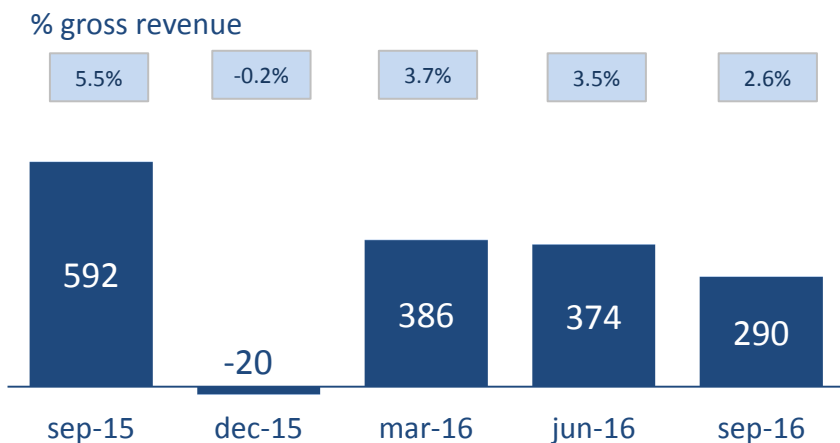
## Financial Results\*



## Adjusted Net Debt\*\*



## Working Capital



## Comments

- Adjusted financial results**  
 Improved 40bps in 3Q16 to 5.2%  
 Impacted by the reduction in net debt
- Working Capital**  
 Reduction in working capital need in R\$302 million  
 Improved balance between inventories and suppliers
- Net Debt**  
 Decrease of R\$465 million in LTM  
 Adjusted net debt/Adjusted EBITDA down from 2.2x to 1.2x

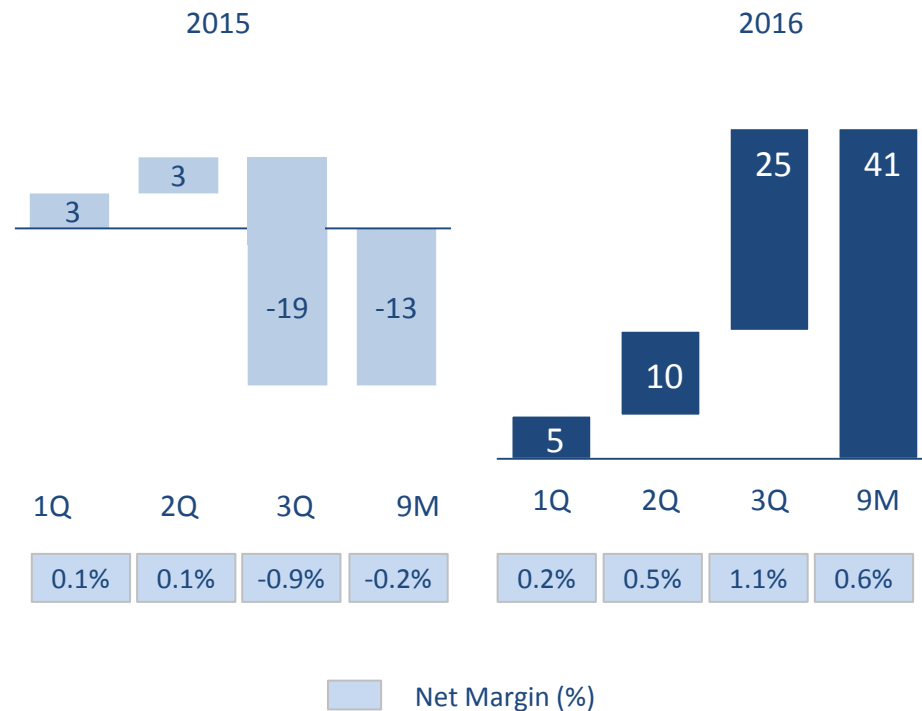
\* Adjusted for Income from fund

\*\* Excluding the credit cards which were advanced

# Net Income

## Net Income

R\$ million



## Comments

### Net Income

- 3Q16: Net Income of R\$25 million
- 9M16: Net Income of R\$41 million

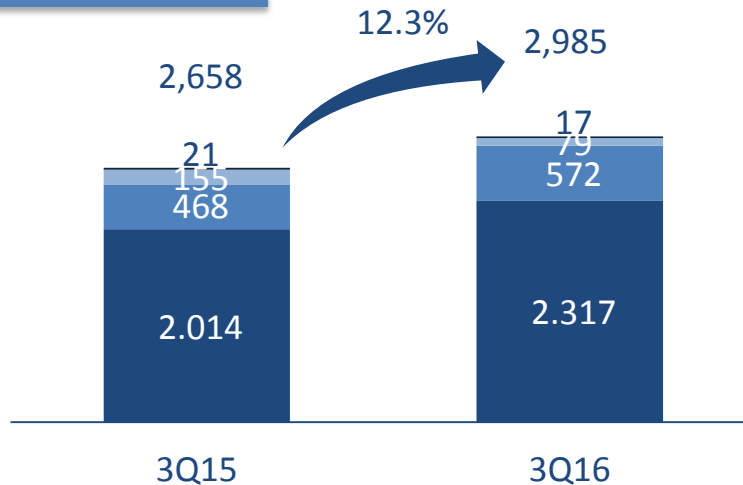


# Luizacred

## Revenue Mix

R\$ million

- Personal Loans
- DCC
- Card - Inside ML
- Card - Outside ML

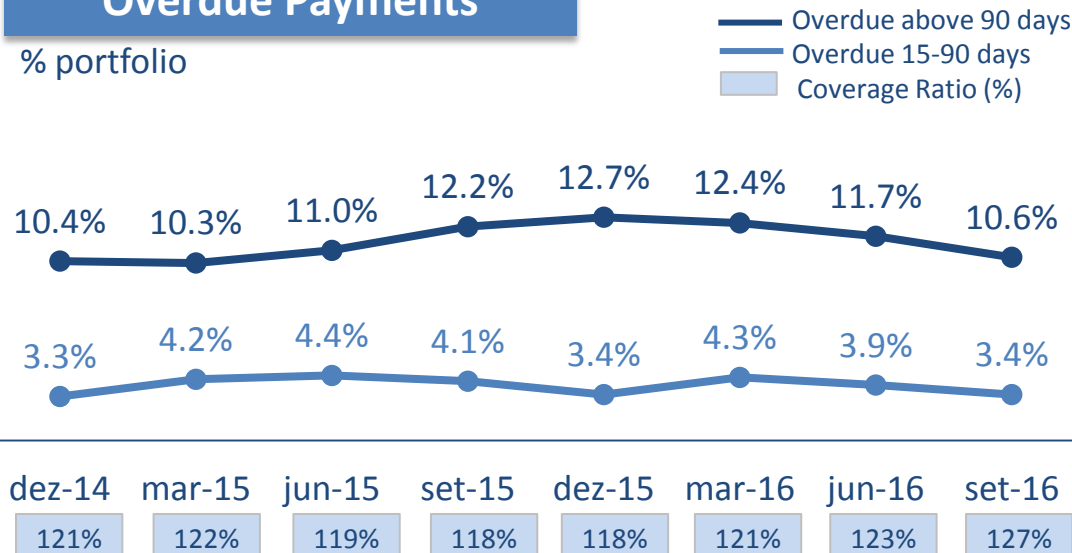


## Comments

- 12% of revenue growth
- Increase in revenues from Luiza Card inside ML stores (22%) and outside ML (15%)
- Decrease of 49% in Direct Consumer Credit (DCC) due to more conservative credit policy

## Overdue Payments

% portfolio



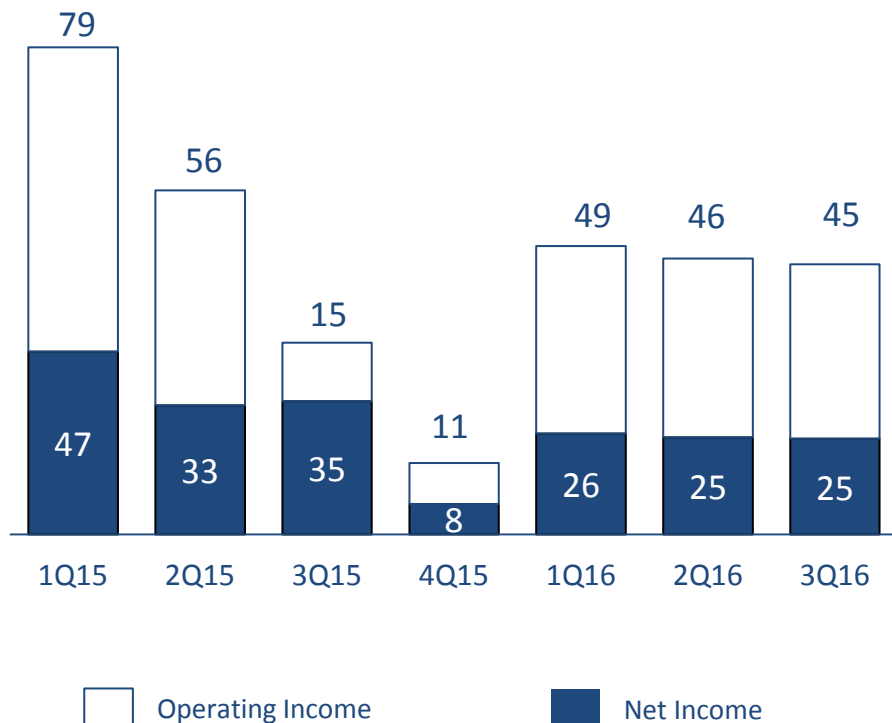
## Comments

- Coverage ratio up to 127%
- Decrease in NPL 90 of 170 bps YoY (10.6% in 3Q16)
- Maintenance of conservative credit policy
- Improved provisioning expenses when compared to recent quarters

# Luizacred Net Income

## Net Income

R\$ million








## Considerações

- Maintenance of conservative credit approach resulted in lower approval for DCC in Luizacred's portfolio (49% lower YoY), partially compensated by Losango's approval which accounted for 5% of brick and mortar sales
- Growth in Luizacred's credit portfolio (+6%) versus reduction in DCC portfolio (-54%)
- Improved short and long term past due loan indicators in 2016
- ROE of 19% in 3Q16

# Strategic Pillars



- 1°  **MULTI CHANNEL**
- 2°  **DIGITAL INCLUSION**
- 3°  **DIGITAL STORES**
- 4°  **DIGITAL PLATFORM**
- 5°  **DIGITAL CULTURE**



# Investor Relations

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