Operator:

Good morning and thank you for standing by. Welcome to Magazine Luiza's 1Q13 earnings conference call. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation.

Afterwards, there will be a Q&A session, when further instructions will be given. Should any of you need assistance during the call, please press *0 to reach the operator. There will be a replay facility for this call for one week.

Before proceeding, let me mention that any forward-looking statements that can be made during the call, related to Magazine Luiza's operating and financial goals are assumptions and beliefs of the Company's management as well as information currently available.

Forward-looking statements are no insurance of performance. They involve risks, uncertainties, and assumptions, as they refer to future events and, therefore, they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors may affect the future results of Magazine Luiza and may lead to results that differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Marcelo Silva, CEO, to begin the conference. You may proceed, sir.

Marcelo José Ferreira e Silva:

Good morning everyone. Thank you for joining us at today's call at Magazine Luiza related to the 1Q13. I have with me Roberto Belíssimo, Frederico Trajano, Fabrício Garcia and Isabel Bonfim, our Director of Administration and Control Marcelo de Almeida, Director of LuizaCred and also Luiza Elena Trajano, our President.

I would like to start with the highlights, addressing the highlights of the 1Q13, starting with the growth gross revenue which was 7% growth vis-à-vis the 1Q12. Same-store sales grew by 5.2%, highlighting e-commerce growing 21%. And we should also consider the comparative base with the quarter of the previous year at 15.9%, therefore, a very strong growth last year.

This quarter we opened two additional stores and closed 14 branches, three from Baú, which were overlapping in terms of geography and we forecasted that we would do that as soon as we concluded the year of 2012.

It is very important to mention that based on the 7% growth, which is what we are working on, in terms of sustainability, in order to have positive results over the next quarters, we increased from 0 p.p. in our gross margin vis-à-vis the previous year, reaching 20.8% of net revenues. It is certainly coming from our focus to improve the gross margin in the Northeast.

We still have a gap vis-à-vis, although regions where we are and we manage to preserve the margins, our gross margin is on the regions where we are. We still had 0.8 p.p. reduction in operating expenses.

This stems from our cost and expense reduction program which was started last year, we also improved our productivity of the store, and this quarter, obviously, we had no extraordinary expenses of integration as we had last year. I think you can only call that.

Please note, as well, LuizaCred quarter, which was a very solid growth in our revenues, 9.8%, improving 6 p.p. of the gross margin of LuizaCred and consequently EBITA went up to 8.5%, net margin at LuizaCred to 4.5%. And we had a reversal of R$16 million losses in the 1Q12 vis-à-vis R$16 million profits in the 1Q13.

All these drivers and factors made us move from a loss, a significant loss in the 1Q, incurring extraordinary expenses to profits, incipient though, but it is still gave us a projection for a growing result over future quarters in 2013, assuring us profit very high in 2013, above what we had in 2012. To get into more details about the operating and financial indicators, I would like to invite Roberto Belíssimo for the presentation.

Roberto Belíssimo Rodrigues:

Good morning everyone, starting now on slide number five, we show our growth in number of stores. We closed last year with 743 stores, March with 731 and we close 14 stores that were overlapping, and open two additional stores, new stores this quarter, within our plan to open 20 to 25 stores by year end. We closed these stores because now we focus on improving the company’s profitability as well.

On the next chart we show our investment plan, R$27 million were invested this quarter. We optimized investments and we invested less compared to the 1Q of the last year, when we had invested R$47 million. Please know that at that time we were investing to expand our DC in Louveira, investing heavily in logistics, remodeling, new stores, technology and logistics as well.

At the bottom to the left we have same-store sales growth, in the 1Q of last year we grew 12.6% in physical stores, 15.9% total same-stores growth and 25% total new stores. So, growth at this 1Q was above the market growth, 2.9% with brick and mortar, 5.2% including e-commerce, and 6.9% including new stores, also gaining market share.

Please note that this is the poorest quarter in retail as a whole. From now on, future quarters tend to be more favorable in terms of seasonality and also the calendar effect. The next chart shows our average age of stores, we still have 37% of the stores with less than three years, within our maturation process, as we planned before.

On the next slide, now on slide six, we break down a little bit of our LuizaCred performance, which was a great highlight, in terms of results this quarter. In terms of sales mix, third-party credit cards grew from 30% to 36% stake. Direct credit to consumer grew from 14% to 18%, and this really helped the results for LuizaCred, expanding our growth margin, EBITA margin at LuizaCred, and also LuizaCard down from 24% to 16%.

We continue to be very conservative in terms of credit granting, however, on the next chart we can show the total billing at LuizaCard, growing virtually 10%, from R$1.1 billion to R$2.1 billion, highlighting our growth in direct credit to consumer this quarter.

On the next slide we show our growth in credit card base, virtually stable in the 1Q. I would like to remind you that this base is becoming increasingly more mature and more profitable as well from the moment we have new cards and they become more mature and more profitable. Portfolio grew 7% vis-à-vis the 1Q of the least year, reaching R$3.6 billion. Here we also highlight the growth in our direct credit to consumer, portfolio growth of 80% this quarter.

On the next slide we show performance of LuizaCred portfolio. It was greatly improved vis-à-vis one year ago, improving 4 p.p. over 90 days overdue, went down from 12.7% down to 8.7%. That was a very good performance, as you can see. A slight increase, vis-à-vis December, stemming from seasonality, a normal seasonality in our segment. As we continue having a very robust provision level, the coverage index or the balance of provisions over past due portfolio at the very high level of 147% this quarter.

Now, moving to slide 10, here we show our gross revenue on the consolidated basis. Just to clarify, we changed our booking process for our results. We are using a new CPC in line with IFRS and now we are consolidating 100% Magazine Luiza and retail which was already fully integrated at the controlling company.

LuizaCredi and Luizaseg which consolidated as a proportion are now being posted as equity income affecting revenues, assets and liabilities. Anyway, in the release we do the disclosure both of the current format and also the format that we used until last year for more comparative purposes. Gross revenue in the 1Q was R$2.1 billion, growing 7%.

Internet sales amounted to more than R$300 million, growing 21%. Consolidated net revenue was R$1.8 billion, growing 6%, again, over a very high comparative base, compared to the same quarter of last year. On the next slide we show our gross income performance, and also the gross margin. In the 1Q, our gross margin was 28.2%, growing 0.4 p.p. vis-à-vis last year, stemming mainly from improved margins for the Northeast stores. This margin was also above the 4Q12, despite that fantastic sale that we performed in January.

Please now that in the previous format, when we would consolidate LuizaCred as well, expansion was 1 p.p. vis-à-vis last year, considering the increased growth margin of LuizCred, as well.

On the next slide on page 12 we show our operating expense performance. Total operating expenses were virtually the same amount as last year, growing very little. We had a percentage reduction of 0.8 p.p. over our net revenue, stemming from all the efforts already made, in terms of lowering expenses. Please note we have further opportunities for the 2H13 and also buy or rent to implement projects that are underway to lower expenses and also about store maturation and synergies of our integration as well.

In terms of selling expenses and SG&A, there was a slight reduction and we did not have any reduction or non-recovering expenses. Therefore, other operating expenses are now used in other operating revenues. On the next slide we show the performance of our EBITA, here we include equity method as well.

There was increase in gross margin, a dilution of operating expenses, and also a substantial reversal in our equity income results. As a result, our EBITA margin grew from 1.4%, or R$23 million to 3.6% in the 1Q of this year or R$63 million. This shows the beginning of our gradual improvement in the profitability expected for 2013. At the bottom we show last year, R$56 million, 3.4% our recurrent margin, and this year 3.6%, non-recovering expenses.

Now, on page 14, we show a drop in financial expenses, also contributed to improve our final results. A reduction in financial expenses stems from CDI reduction, and also a significant improvement in the working capital this quarter, compared to the 1Q12, both in terms of average purchase, turnover of inventory.

These factors altogether have really helped to lower our need for capital, working capital, and also to lower our net debt. By year-end, our working capital variation is expected to be normal. In the 1Q it is slightly positive and by year-end we expect to have it negative again.

On the next slide, now on page 15, we show our net income performance. In 1Q12, we had a loss of R$40.7 million and then R$21.9 income in 2Q12, R$2.4 million in 3Q12 and R$9.7 million in the 4Q12, and virtually R$1 million in 1Q13.

On the next slide, on page 17, I give the floor back to Marcelo Silva.

Marcelo José Ferreira e Silva:

Before we conclude and give the floor to our president, I would like to address our expectations for future quarters. The high one-digit growth of 2013 is assured, it has been growing.

April was much better, despite Easter last year vis-à-vis this year. Mothers' day was also above our expectations, really positive. We expect to open between 20 to 25 new stores and we will keep on growing consistently, both in terms of sales and also numbers of new stores, 20 to 25 new stores this year. Our projections confirm that our growth, same-store sales will have a high digit in addition to e-commerce growth, which is projected between 20% to 30%.

On top of that, in addition to sales growth and high digits, we expect to maintain our gross margin. We will be significantly decreasing our gaps between Northeast stores and stores in other regions. We are in the post integration phase in the Northeast and today we will have a full vision. The stores have the same visibility of other Magazine Luiza stores.

We are still in the pilot phase, testing, but we expect to have in the 2H13 our pricing project, in order to improve intelligence and pricing by channel, by region, by product family and give more autonomy for the sale department in our stores, which is something really important for those who are present in 16 states in the country.

We also strongly continue to engage our cost and expense reduction store, improving our stores, and our price policy is more stringent, and we are having this in our zero-based budget. The most significant gains are expected to happen in the future, more and more than they happened in the 1Q, including gains of synergy, because now we have already integrated Maya and Baú chains.

Our commitments, like we said last year and now, closing the balance sheet in 2012, is to have better productivity and profitability indicators. We are focused to improve quality of service and customer satisfaction. We still have a maturation process for 1/3 of our stores.

As time goes by, these stores will be equivalent to the profitability of more mature stores in our chain. And now, with price management, improved stores in the Northeast, and in terms of profitability, except for seasonality in the 1Q, which is only natural, affecting the whole retail as a whole, with zero-based budget, we also have tax benefits in our payroll, starting in April, reduction in eletricity, tariff, and we are improving productivity in all of our Company's stores, all DCs.

LuizaCred continues to have an expense rationalization program that is still very strong. We started a multi-channel delivery program, so all these synergies will be much higher and, as a result, we can say that we expect to deliver result in 2013 absolutely different and above what we had in 2012.

Before we move to the Q&A section, I would like to give the floor to our president Luiza Helena Trajano.

Luiza Helena Trajano Inácio Rodrigues:

Good morning everyone, I am delighted to be her with you, I really wanted to be here quite a long time. I just wanted to show that I really am very positive about the Company this year. You all know I am really transparent, whatever I say is already in practice.

We knew things would happen this way. We bought Baú and when we had the merger of other stores, we had two very challenging years, but we also follow very closely, and in the South we had a drought, a very strong drought, and now we have another drought in the Northeast, but I am very confident on what we did.

Any competitor with a lot of money takes many years to have 140 stores in the Northeast, in the main capital cities, and it is really hard, it is a business of opportunities, and Baú was something we really wanted to have. I particularly wanted to deliver one hundred virtual stores.

I believe the chain from brick and mortar to five and ten years, the virtual store will be ready to have a very strategic breakthrough. Brick and mortar will be here, but the format is something that we want to be with, and virtual stores are something that, by the way we expect to have a mix store in Heliópolis, you will have time to get to know it, it is closer, and you will see what a virtual store is all about, you have to see with your own eyes.

The 13 stores that we closed with Baú were not in the valuation, because when we bought them we took another year to see if it was really worth it. So, we closed them and we have even more to close, because the valuation less than the 113 acquired. It was about 130 stores we would have, 35 that we have already fully converted in Paraná into virtual stores. Capital stores we managed to increase and have a furniture store, because it would take is too long to have it the capital city.

So, we were very confident and now we have no excuse about the merger, but still we will keep on growing. We are really excited this weekend, we had the right product at the right time, the right campaign. We heavily invested in what we sold 7.500 pan sets last weekend and home appliances, we want to improve our margins.

We will be improving our margin, but not by buying new chains, because that interferes, but I am not saying we are not growing, I am not saying we are not going to increase our sales, but chains sometimes impairs results in the first years. It is good on the one hand but not on the other, so now we are focused on profitability and profitability will happen and that is why we are focusing on stores growth, reduction of expenses and opportunities.

I would also like to say that tomorrow I am going to Brasília, we have been working in a group with technicians, and also with the President, and several ministers. President Dilma will approve this week or early next week something really good, Minha Casa, Minha Vida Program, so people can buy through Caixa along with Magazine Luiza.

We were the first with furniture pass and we helped to buy refrigerators, television sets, washing machines, computers, beds and also living room sets in 60 payments, 5% interest. We have no commitment and we really worked to increase from one door fridge, like frost-free refrigerators, so people will have up to R$5 thousand, according to their credit, to spend in our stores.

Those who are already in the Minha Casa Minha Vida will also be entitled to it, so Caixa will really facilitate loan, and we have already been saying in the media, but we are going to Brasília because we hope to make this process work and we are also very much strongly engaged in tax distribution. We are sending back everything we paid for in retail as of July. So, we have been really working hard to help the government to create something consistent, as Minha Casa, Minha Vida.

Another thing that probably you saw has to do with insurance. Many people sell embedded insurance, I think you heard that. The first time people said if they would be dismissed or not, and they promised R$1 billion insurance. Some people have 2% or 3% only in insurance. I would love to sell insurance, but we cannot embed it, that will be a problem for others. So, we are studying bodies how we can sell insurance properly in order not to be insurance to an end.

We are firmly engaged with the government, more than 2 million products within two or three years, financing in 60 payments, and we will not have problems default because we have cash through our card and Magazine Luiza helped to make this card with Caixa.

We have a lot of novelties, many things happened and we are really excited this weekend. For quite a long time we have been expecting to do something, and we were really surprised, and I was really happy this Monday. So, it is great when Mother's Day is good. The market was really warmed up and it was really amazing.

I will be here for the Q&A section. Thank you very much.

We might not have bought the chain, but we have to buy the chain, otherwise we would not be in the Northeast, which is an amazing market. We have been through various droughts, but this is really about all investments which will be there. I do not regret having bought Baú's 35 virtual stores in Paraná, in the interior, in other states and that greatly improved our stake in São Paulo, but that had a price to pay and we paid that price and now it is over, everything is over.

It was a very well performance by Marcelo and his team in these two chains, they were firmly engaged last year, I congratulate them, it was a beautiful work. Adapting a system, well, this is really challenging, and they did it very smoothly, without interfering in our database. So we are really working in order to have retail at a fair price in Brazil.

Thank you very much. I will be here to take your questions.

João Mamede, BTG Pacutal

Good morning everyone, I have two questions. The first one has to do with direct credit to the consumer. Roberto mentioned in the presentation that this was a project that became a heavy weight this quarter. I would like to know what the Company imagines to be the stake of this product in sales later on, I think there are more expenses to gain, right?

My second question has to do with gross margin. Marcelo mentioned in the presentation that evolution was very good this quarter, and if we take into account that e-commerce grew beyond brick and mortar, and e-commerce generally has a lower margin compared to brick and mortar, this gain was even more significant, but what about the future, what are further gains?

I think Marcelo already made some comments saying that are future opportunities, but I wonder if you could quantify what you envisage for gross margin performance down the road and also with e-commerce growing more you also expect to grow from 20% to 30%, more than one digit compared to retail. Can you make comments on these dynamics? It would be excellent. Thank you very much.

Luiza Helena Trajano Inácio Rodrigues:

I will answer about credit card and maybe Marcelo can address gross margin later. What happened? Brazil gives credit cards to everybody. Credit card started, but people did not use credit cards properly, so financial companies decided to have a credit crunch, which was natural. In a partner with retail, the alternative by retail was to come back to payment card because people default is controlled and clients can buy more. I expect to transform this payment card into a cheaper credit card, because credit card is easier for us to handle.

I have been following default at LuizaCred on a weekly basis. We follow the whole operation, and default and delinquency is under control. Our payment card is also under control, and remaining costs, like Roberto mentioned are those that are really profitable to the Company.

So, there was a strategic error by all banks and financial institutions. The premium should be on the card volume, but not on what we bought by cards. The cost of the Company was of cards that were not used. So, I think now we have been addressing very carefully, with experienced people, to think about the direction for CDC in the future.

Based on my experience, I really believe direct credit to consumer will move into a more simple, last expensive and faster card. That answers my first part of the question.

I would also like to mention our satisfaction with dot-com, it is the only dot-com that is profitable, and it has been growing profitably. If you go to our website, it is a really cool website. People buy wedding presents in it, it is really agile, really friendly to buy. I buy myself, because we all pay everything on the right spot, even Luiza's pays and buys.

Roberto is going to answer the second part of the question, and I hope I have answered your first part of the question. CDC was a way out until we could get cards back on track and put delinquency under control.

João Mamede:

Thank you, Luiza.

Roberto Belíssimo Rodrigues:

Good morning, João. Just adding something as well, CDC grew a lot since the beginning of last year, and it has proved to be close to 20% in recent quarters, and we expect to be similar in future quarters.

As to the gross margin, you are right, the gross margin of e-commerce is slightly lower. So, when we say we maintain gross margin in South and Southeast and it was higher in the Northeast, we managed to do that, even though e-commerce was growing 21%, improving the state of on-line sales, from 12% to 13%, from 14% and almost 15% of our sales. That was the growth or a good performance in the gross margin for other regions, net of e-commerce.

Frederico Trajano Inácio Rodrigues:

Good afternoon, can you hear me? Just to add something, we have already mentioned in previous calls, but it is good to highlight that e-commerce gross margins is lower compared to brick and mortar, however, it is more than inferior in this proportion of brick and mortar. So, the impact of e-commerce on EBITDA growth is very positive.

Actually, although we grew more in e-commerce than brick and mortar in the 1Q, the Northeast factor was really representative and significant, and the consolidated gross margin went up, but e-commerce did have a positive impact in EBITDA, just as it happened in previous quarters.

João Mamede:

That is clear, thank you.

Irma Sgarz, Goldman Sachs:

Good morning. I would like to have a better understanding of your vision, vis-à-vis sales performance in brick and mortar stores, which was a little bit more modest early this year. As you said in the release, you still are confident that this is expected to come back to higher levels in future quarters.

I would like to understand about the scenario or the macroeconomic scenario, and obviously this potential measures that might even help sales, but except for that, is there anything you would highlight that you can already see in terms of Mother's Day campaigning, for instance, or something that supports your trust and confidence for brick and mortar stores to come back to higher levels? Thank you.

Frederico Trajano Inácio Rodrigues:

Good afternoon. Let me address sales and give you more granularity. As Marcelo said, we should always bear in mind in that the 1Q of last year the comparison base was very strong. It is the strongest for the whole year.

In the 1Q of last year, I believe our performance was really extraordinary, so for upcoming quarters our comparative base will be softer compared to the 1Q12, because the economy last year had a slowdown, and the 1Q was still strong. So, this is the main driver in this reading of results for the 1Q.

Another important factor, Irma, is that we have three days less this quarter, and remember, last year Easter was in April and this year Easter was in March, so the three less business days have a 3 p.p. in fact on same-store sales. This is to give a comparison with retail. It is important to bear that in mind.

We already see April with figures very close to our guidance. One, a high single-digit for same-store sales, and the same for Mothers' Day considering the positive weekend we had. We are excited, also being very bullish, and the e-commerce growth is still solid with us, and maintaining our profitability

Luiza Helena Trajano Inácio Rodrigues:

I would like to say that we are going to have the Confederations Cup and there we will sell a lot of televisions. We are selling four or five times more than we usually do because the government gave us a lot of incentives in April, and as of the day 20 we are booming in broadband, for instance, for R$10, and this is going to heat the mobile phone market.

Smaetphones will be working with the government for many years, and since early March I told people to buy smartphones. Our sales in the ten days in April were three or four times higher, in terms of sale. Then we'll have the World Cup, and then the Olympics, so Brazil has six years of consumption, amazing consumption, when you have a strong gain, people change their fridge, because they want to entertain friends at home, and we are also working a lot with communication.

On top of all the products that I said, more than 2 million products that will be launched as of next week, encouraging people who are in 'Minha Casa, Minha Vida', who have no payment loans, 60% of C bracket households do not have credit, but that is only because they have no access to credit. That is why we now, with Caixa, can work for these projects to be launched.

60% of households have no problem on credit, however, they do not have access to credit through our financial institutions, and the government will allow them to have it. So, just imagine if Brazil still needs R$23 million for 'Minha Casa, Minha Vida' to have a satisfactory levels of cash, a sustainable level, socially speaking.

Irma Sgarz:

Perfect, thank you, these are important drivers. A second question, if I may, related to e-commerce. Frederico, maybe you could help me have a better understanding. As for as I understand, you are slightly be changing logistics to generate 100% through DC Louveira, and now you are already testing a pilot study of the center in the South, if I am not mistaken, and now you are also working to have it expanded for all distribution centers. Could you elaborate on that? What are the expectations in that regard, or EBITDA margins, more specifically, for e-commerce? And also the impact on the Company as a whole.

Frederico Trajano Inácio Rodrigues:

Certainly. It is not only a pilot study, we were already working on the project, since early last year, just one DC center last year, just Louveira DC would build and cover sales for the whole country. We are the only Company in Brazilian retail that is fully integrated in channels, the majority of our competitors have e-commerce operations fully separate, with no synergy, these are different DCs, and logistics are fully separate.

But our operation give us the chance to work fully integrated with DCs that can deliver both through e-commerce and brick and mortars. What we are already doing in our roll out, we already have Caxias do Sul DC and another in Minas Gerais with e-commerce.

For these regions, delivery term goes down 60% and we also have a drop in delivery term, so we have a very positive impact both in sales increase, because if I am more competitive and I deliver faster than our competitors, who do not have that benefit in that region, we also improve our logistics.

The main e-commerce cost is freight expenses, on brick and mortar it is the payroll. If you manage to lower freight expenses, you can greatly improve e-commerce EBITDA and EBITDA, which is already positive and above the market average, thanks to our policy of multi-channels.

So, we already have two DCs in addition to Louveira, and until the middle of the year we want to have another DC in the Northeast, with a competitive edge, very big to the Northeast. Today just one of our competitors has a DC in the Northeast.

The difference in our rollout, we are going to have eight distribution centers on the web, and our competitors will have to heavily invest in a new CD or significant CAPEX to do the same, but in our case all we have to do is adapt our system with very low investment, to work on an existent DC and operate on e-commerce.

We are very bullish for e-commerce, both in terms of higher sales, and also freight cost reduction, therefore improving our EBITDA in this operation without massive CAPEX investment, which we know is important for the capital invested.

Irma Sgarz:

Perfect. Now, just as a follow-up, what about the reduction in the logistics cost? Do you intend to transfer them, or are you already transferring that to customers? Maybe that could also help to drive sales. Are we going to keep on doing that? At the same time, obviously, this also operating leverage, so, how would that happen in the earnings results?

Luiza Helena Trajano Inácio Rodrigues:

Absolutely. Well, We are not transferring that to our customers yet. We will only do that once our operations are more stable. For the P&L, what we can see is a reduction in SG&A, particularly in the account that represents SG&A, which is freight account, which is one of the most important in our expense growth, and it can still go down in upcoming quarters, from the moment the volume of the new markets are materialized.

Irma Sgarz:

Perfect. Thank you.

Ronaldo Kasinsky, Santander:

My question has to do with the gross margin that we said before. I wonder if you could talk about the performance in the mix and the portfolio, any direct impact on gross margins? And about 'Minha Casa, Minha Vida' Program, will that be a direct impact on mix change? Is it already considered in your guidance for brick and mortar stores? Thank you.

Luiza Helena Trajano Inácio Rodrigues:

We did not know we would have 'Minha Casa, Minha Vida' . It takes some time to happen, but it was not in our guidance. Tomorrow we will have a meeting in Brasília and we will define the aspects. We struggled in order to have a consistent and fair project. President Dilma is in a hurry to set that, and once Marcelo knows what happened, he will add it all to these other aspects.

So, maybe in the second call we can say how much it represents to us, but that is something really cool, because there is no default. You have it right on the spot, and it is really cool because it adds customers that would not buy from us otherwise, those who currently have no credit, like I said before. It is a new consumer that will get into this project of essential or basic products.

Frederico Trajano Inácio Rodrigues:

We cannot measure yet, but in fact, it will be like Luiza said, we have to wait until the project is launched, and then see what could happen, or the effect.

Ronaldo Kasinsky:

OK.

Roberto Belíssimo Rodrigues:

Ronaldo, in the 1Q we did not have major changes in product mix. The increase in margin may be explained by channels in the regions, like we said before.

As to the future of the program, once we have more clarity on the mix, we can communicate the effect on margin, but that is what we already do, but that is what we already do, products, home appliances, televisions, etc.

Luiza Helena Trajano Inácio Rodrigues:

About the mix, can I just say something? Ronaldo, this mix by gifts and toys, electric home appliances, the rates are going up dramatically because these people already have a fridge, on their stool so now they are buying a multi-processor, new pan, and we launched a new multi processor this weekend, and it was a great hit.

So we will always sell gifts, presents and toys, portable equipment and now portable equipments for women's hair, for instance, they have a very high demand they like to buy in the brick and mortar store, so that they can take it home right away.

We are also helping our managers in the gift line, because I am very confident that colored pan sets are really selling high, by the way, we sold about 8 thousand sets last weekend. There is no delivery, no technical service and the margin is greater compared to our products.

So, once that grows and Magazine Luiza is ready for that, that is a strong market trend, considering nobody expected to sell this high number of pans. It was an unknown market, so this mix will really help to work on our margin, and I believe on that so much that I am working with Fabrício, so we can sell gifts, with his team as well.

Ronaldo Kasinsky:

Great, Thank you.

Luiza Helena Trajano Inácio Rodrigues:

We firmly believe this.

Ronaldo Kasinsky:

Thank you.

Victor Paschoal, Itaú BBA:

Good morning everyone, my first question has to do with margin performance of the Northeast stores. What about the gross margin and the EBTDA margin at this quarter? I would like to have an understanding of profitability or different levels of profitability in these stores.

My second question, based on Luiza's opening comments on virtual stores, since last year, well, I would like to understand when exactly you intend to open the store model again?

Luiza Helena Trajano Inácio Rodrigues:

Let me answer, we grew 35 stores, 105 stores with Baú, by the way, this was the reason why I struggled to buy Baú, I saw the price was cheap, so we turned 35 stores and we have 105 virtual stores now. Regardless of the e-commerce billing will be very high, so we grew what happened was that some of the 35 stores from BAU converted into virtual stores.

So, we grew in virtual stores and we keep on growing. Heliópolis, for instance, is a mix store that Frederico is working with brick and mortar stores and dot-com. We really wanted to have a virtual store here for you to know, as we opened one now in Heliópolis and we also have communities like Paraisópolis, you could go and visit, it is really cool. I visited then very often even with people from Samsung, Whirpool, I take these people there, and we will be opening for very good and better store.

So, we never stop. We opened 38 or 39 last year, Roberto can give you the right figures, and Tatiana in our team can also give you the right figures. We never stop, quite the opposite, Baú was my goal to increase the number of virtual stores and have a leap. So we never stop.

Marcelo José Ferreira e Silva:

Virtual stores operating profit is even greater compared to conventional stores and shopping mall stores. The Northeast stores, as of November, if you check our income statements, this is inside Magazine Luiza. We do not have the former Company name. From April to October we fully integrated all the stores so we no longer are communicating the former Lojas Maia, Vasconcelos not even LuizaCred or LuizaSeg, because they are now in the equity method.

I can say there is a gap in the gross margin of the Northeast, because now we have more visibility, but the systems are the same. We already have gains and prime improvements in the Northeast in the 1Q, and now we have another opportunity, the operational and commercial areas are working together so that gradually we can improve the margins in the Northeast. There will be a time in which it will be equivalent to the Southeast, just preserving some particularities of the region

But our focus and, by the way, this is part of the process, to improve our gross margins in the Northeast, preserving the margins in those regions. Now, for the future, whenever there is something very significant in the Northeast, whether it is upward or downward, we will disclose that to the market, but only when it happens, only when we have something different.

Right now we have gradual gain in gross margin in the Northeast, and also gains in synergy, considering we had the integration until October, and as on November we also had the synergy of SG&A in the Northeast as a whole.

Luiza Helena Trajano Inácio Rodrigues:

The whole operating part in the Northeast, payrolls, controls, everything is already, all the operations are already there, in the Northeast. Payments, everything is electronic now, so the Northeast right now, we have already worked on the hole administrative part, and the effect will also appear in the future.

So, it is not easy to point all that and convert, we are leaving a lot of things there for strategy, because that is another world, another country. As to operations, everything is already with the CSC in Franca, where we have our operating part, because everything is easier and cheaper for us.

Victor Paschoal:

Great, just to clarify about virtual store, I am looking at the chart on page three, and I can see the 1Q12, the default number, 106 stores. Am I missing something here?

Luiza Helena Trajano Inácio Rodrigues:

I am sorry, Roberto will explain that.

Roberto Belíssimo Rodrigues:

We acquired Baú stores in mid 2011, and until the 1Q of last year, we were working on store re-modeling, opening, etc.

Victor Paschoal:

This 35 increase happened in 2011, right? And in 2012 you had a constant number over the year.

Luiza Helena Trajano Inácio Rodrigues:

Well that was at the very end, we opened stores in December because 35 stores had to be readapted, they were conventional, and small stores, so we had a visibility study and actually sales did not happen last year. I am sorry, I was wrong about the figures, and about the date, but we are counting on it this year, and we will keep on growing with virtual stores, low cost, low investments, convenient.

Victor Paschoal:

Thank you.

Graziela Paiva, Santander:

Good morning, everyone. I would like to know if you are interested in Via Varejo stores to be sold, particularly in Rio.

Luiza Helena Trajano Inácio Rodrigues:

Well, this is not an acquisition. We are interested and we already mentioned that, but this is not a acquisition. This is different if they were selling the company, it would not be, but we cannot close an organic acquisition right? So, I called Via Varejo CEO and I said we would be interested, I am not saying we will buy it, but we will be analyzing it.

We are in game, because this is not growth, in terms of buying inventory or customers, but only consider our organic growth. So, we are interested in Rio and virtual stores would greatly support Rio, particularly the one that Frederico is testing in Heliópolis, it will give a great support, you could have conventional stores supported by Heliópolis stores in Rio.

If I tell you I want to know how much it is worth, where the discount it, this is different because there are many chains to be acquired, but to tell you the truth, when it comes to me, I say, Marcelo please, you do it.

Now, when we have chains to buy, and I called him personally, because we are great friends and said I want to be in gain with Via Varejo to see the point of interest, because that is common organic growth and we are interested in it.

Graziela Paiva:

Thank you.

Operator:

With no further questions, I would like to give the floor back to Mr. Marcelo Silva for the closing remarks

Marcelo José Ferreira e Silva:

As you could see, all the indicators of the 1Q13 have been improved, vis-à-vis the 1Q12 in general. We are confident that, according to our purpose and our mission about the strategy for 2013, we will keep on growing.

We will show our gross margins, lower operating costs, we are extremely confident that we will deliver quarter on quarter, gradually, positive, and consistent results, so, by the end of fiscal year we will deliver far more satisfactory and significant results compared to what we had in 2012. Luiza, would you like say anything?

Luiza Helena Trajano Inácio Rodrigues:

Thank you very much, I would like to congratulate our team for the outstanding job last year, you are really engaged. The 1Q is already showing results, and I am really happy with the results. Like I said, I am confident, as Marcelo said, that we will deliver our promise and increase our income, but always being aggressive, grow in sales, doing new things, and being in Magazine Luiza will always mean investing in culture, people and education.

Please count on it and I am very happy with the part taken by us. So, now, our Company is based on this team, and I am very happy and confident that we will be deliver many good new things on a gradual basis this year. Thank you very much.

Operator:

Magazine Luiza's 1Q13 earnings conference call is now concluded. You may disconnect your lines now, and have a good day.