Operator:

Good afternoon, and thank you for standing by. Welcome to Magazine Luiza's 3Q12 earnings conference call. I 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, we will start the question and answer session, when further instructions will be given. Should any of you need assistance during this call, please press *0 to reach an operator. A replay of this call will be available for a period of one week.

We would also like to highlight that any statements that may be made during this conference call, related to Magazine Luiza's business outlook, as well as any operating and financial projections and goals, are based on beliefs and assumptions of the Company's management and on information currently available.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties, and assumptions, since they relate to future events and, therefore, 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 performance of Magazine Luiza and lead to results that differ materially from those expressed in such forward-looking statements.

We would like to give the floor now to Mr. Marcelo Silva, CEO, who will open the presentation. Mr. Marcelo Silva, you may proceed.

Marcelo Silva:

Good afternoon, everyone. Thank you for joining us for the conference call of the earnings of the 3Q12. I have here with me all the officers of the Company, Roberto Bellissimo, our CFO and IR Officer, Frederico Trajano, and all the marketing department, Isabel Bonfim, Marcelo Barp, from LuizaCred, and Tatiana from Investor Relations.

On page three we have the highlights of the 3Q. Let us first address our sales growth. We grew 15% in same-store sales growth. We highlight e-commerce, with growth of 25% as well. Please, note that the comparative basis is high and also our performance in the 3Q.

Sustainable growth. We have been managing to improve our gross margin at 33% of the net revenue, improved 0.8 p.p. vis-à-vis the previous year. We maintain this margin vis-à-vis the 2Q, and we have been maintaining our performance.

Our credit approval rate is very conservative. We have a joint venture with Itaú. We always mentioned that one of our focuses for this year would be the completion of the integration of processes in all these stores. Some stores were already concluded in October and, as a result, we expect to have more effects as of the 4Q12, particularly over 2013.

Certainly, with the unification of our systems, we will be better able to manage our inventory, our price, and reduce operating, administrative, and back office expenses. Please note that in one year we managed to complete satisfactorily the integration of almost 250 stores; Baú in February, and now Lojas Maia in October.

We also continue our program to dilute expenses, which was one of the most critical points of the Company in 2012. We managed to lower 0.8 p.p. our general and sales expenses. And we have a reduction already in the net revenue compared to 2011.

R$45 million now this quarter, and more conventional stores, and investing in other nine stores, and at the end of the presentation we will be focusing on the number of stores to open in 2012. We have another program in our stores and we keep on investing in logistics and technology.

In the integration of Lojas Maia, we have a total of R$6 million invested in training, travels and training of employees in the Northeast, and also with the brand conversion of our stores in Salvador.

As to LuizaCred, we greatly improved our overdue indicators on a quarterly basis. Our overdue, or 90 days overdue portfolio is becoming smaller and smaller. We maintain our conservative approach and lower approvals rates. LuizaCred includes loan loss provisions that come from our partner, Banco Itaú.

Finally, the net result of Magazine Luiza on a consolidated basis is absolutely incipient, particularly considering the impact of sales in the 3Q. Some results were below the expectation, and also the conservative approach of our loan loss provisions at LuizaCred. These were the main factors that lowered our results.

And now I would like to give the floor to Roberto Bellissimo, so he can present the financial highlights.

On page four we show you some slides and some photos of the stores we opened in the 3Q on several different cities and sites. You can see different pictures just as examples.

And now I would like to turn the floor to Roberto, so he can give you the financial highlights.

Roberto Bellissimo:

Good afternoon, everyone. Now, on page six, we give you a highlight of our growth in gross revenue. First in retail, we had R$2 billion in sales in the 3Q, growing 14.7% vis-à-vis the 3Q11, particularly due to same-store sales growth, e-commerce growth. And I would like to highlight that in the Northeast, R$287 million, accounting for 14.2% of total retail sales.

It was slightly lower compared to the 2Q, when we had sold slightly more than R$300 million, particularly considering the integration and transitions process of systems and remodeling of Salvador stores that happened in August and September, more specifically. After that, sales in the Northeast started to grow above the average in the South, Southeast, and Midwest, as it had happened in previous quarters.

In the first chart at the bottom, we have the consolidated sales. Magazine grew a little bit more, 15.2%, driven by the growth in consumer financing segment, which grew 23% and was encouraged by increased sales of CDC, or direct credit to consumers.

On the next slide, on page seven, we show the growth of our e-commerce sales, reaching R$269 million in the 3Q, growing 25.5% vis-à-vis last year, and also gaining a larger share in the market, e-commerce as a whole.

Year-to-date growth is 37%, also way above the market average, and this owing to an increase in our product mix, content, investment in infrastructure, technology, and also our multi-channel fully integrated model, fully integrated with retail and brick-and-mortar stores.

Good afternoon, everyone. We are starting the presentation again. Let us start on page eight again. Like we said, the consolidated revenue grew 15.1% in the 3Q and 21.4% year to date until September, and the gross revenue included.

Consolidated gross income is growing above 18.1% in the 3Q, 21.7% year to date. Gross margin in the 3Q was 33.5%, therefore above the gross margin of the same quarter of the previous year, 21.7%.

More specifically, in retail gross margin was slightly lower compared to last year in terms of product mix and Internet growth, but slightly above the gross margin of the 2Q, and does not reflect yet improvement expected from the Northeast operation, which had a gross margin at 25%, compared to 29% for the stores in the South, Southeast, and Midwest, and we expect to address this difference further on.

On the next slide, on page nine, we show the growth of our operating expenses, this quarter compared to the same quarter of last year. Selling expenses remain virtually at the same level, 21% of the net revenue. Like Marcelo Silva mentioned before, dilution this quarter was very low, there was no dilution. We expect in the future to have further dilution, as we speed up our growth as well.

As to general and administrative expenses, there was an important dilution of 5.6% down to 4.9%, therefore in line with our planning that we started this year. As to loan loss provision, there was a 4.2% increase to 4.6% increase, as we explained for LuizaCred. In other revenues and operating expenses item, there was a reduction of R$62 million to R$13 million in net expenses, and we will be breaking that down in the next slide, on page ten.

On page ten we show, first of all, that booking of deferred expenses started at R$12 million; at the bottom we show this quarter, R$8 million, which is the recurrent level for the future, due to the change in the booking criteria. Next, we have integration expenses, R$11 million going down to R$6 million, and virtually inexistent now that we have the integration completed in October.

Personal credit and profit sharing reduced from R$12 million to R$5 million, and it also includes a more recurrent level in the future, and R$12 million above also included part of personal loans that migrated to LuizaCred, and for this part, of LuizaCred, financially intermediation process.

Last year we had a reversal of taxes at Lojas Maia, and this year, an effect of R$5 million on a tax basis. Last year, in the same period, LuizaCred also had benefited from the sale to Itaú Card, at R$22 million. It was a non-recurring event and did not happen this year. Considering that, there was a drop of R$62 million down to R$30 million in our revenues.

On the next slide, on page 11, we show the performance of the total EBITDA. In the 3Q it was R$79 million, equivalent to 3.7% of our net revenue, compared to R$92 million in the 3Q11.

At the bottom of the slide we show the conciliation of the reported EBITDA for adjusted EBITDA. Last year our EBITDA was R$94 million, and this year it grew from R$69 million to R$70 million, a margin of 3.8%, which does not reflect gap.

The integration in the Northeast still reflects loan loss provision or bed debt on a conservative manner, and it does not reflect the dilution of expenses that we expect to have in the full integration of Lojas Maia.

On page 12 we show our growth in our financial expenses, from R$37 million to R$40 million, 2.8%, 2 p.p. growth in the net revenue, positively affected by the drop in CDI and partially offset by an increase in our working capital needs, particularly considering our third-party credit cards.

On slide 13 we show that in the 3Q our net income was R$2 million, and in the 9M still negative at R$16 million. At the bottom, we show the adjusted net income this quarter, non-recurring expenses and revenues at a relatively low level, net income was R$2 million reported and R$3 million adjusted.

On the next slide we break down our investments that are in line with our planning for the year. This quarter, Magazine had the bulk of investments for the year, particularly with remodeling, with R$19 million in the 3Q, particularly with remodeling of Salvador stores.

On the next slide we show some operating indicators, starting on page 16, more specifically. Magazine closed the 3Q with 736 stores, growing 52 stores compared to one year ago. In terms of growth, same-store sales growth for brick-and-mortar, we show in the 3Q 7.4%, 9.3% in e-commerce and the total 14.7%.

On the left side you can see the growth last year, showing that the comparative base last year has been very high, 20% same-store sales growth. In the 4Q, as a result, the comparative basis will be lower, around 10% comparative basis, considering our accelerated growth. At the bottom we show 280 stores that are less than three years old, that are not mature yet.

On the next slide we show further growth, and you can see a drop in Cartão Luiza to 19%, that is the share inside Magazine Luiza's stores. This is partially offset by an increase from 11% to 9% in CDC, and also third-party credit card sales, from 30% to 34%. Cash sales and down payment also increased from 25% to 28%.

LuizaCred sales, on the right, at R$2 billion, and that includes R$1.29 billion outside Magazine Luiza's stores, in stores as a whole, and LuizaCred benefited generating additional revenues outside our stores. We highlight CDC, from R$170 million to R$316 million this quarter as well.

On the next slide we show the growth of our Luiza card base, at R$4 million, slightly below what we had last year, considering the conservative approach to issue new cards and the gross portfolio from R$3 billion to R$3.4 billion, CDC portfolio R$767 million.

On the next slide we show the same portfolio and we break down by overdue range, we highlight that over 90 days past due portfolio was reduced from 11.6% in June to 10.4% in September, compared to 13.6% one year ago, and it shows significant improvement in the profile of our portfolio.

Over 90-day past due portfolio reduced R$45 million this quarter, moving from about R$400 million to R$355 million and maintaining a level of provisions at R$470 million, and the coverage ratio of LuizaCred improved 117% in June, 29% in September.

Later on we will be addressing expectations, but I would like to give the floor back to Marcelo Silva.

Marcelo Silva:

I would like to conclude the first part of our presentation addressing the expectations for this current quarter, and also the outlook for 2013. We underscore our growth in our sales, very consistently, the maturity of new stores, the Northeast stores, e-commerce. By the way, in the last quarter our expectations are far better compared to the 3Q, particularly as of 2013 we will be benefitting from dilution of general cost, with the integration of these two new chains and benefits in working capital management, inventory, and price control, and consequently we will be able to improve, like Roberto mentioned, the margins in the stores in the Northeast.

In the 4Q and in October we had a brand conversion in Salvador. Last year we had already done it in Recife, Fortaleza, and Maceió, and now in October we had in Salvador, and we were highly successful.

Due to the increase in product mix and more modern attractive stores, now we have the conversion to Magazine Luiza. This quarter we are concluding and opening another nine new stores totaling 22 stores.

New stores this year, 12 in the Northeast and ten in the South and Southeast. And we already expect better results in the 4Q12, way above what we had in the last quarter of 2011. Considering store maturation, lower expenses, and the capture of synergies for the integrations we have with Lojas Maia and Baú teams, particularly over 2015, we will reap the benefits. We firmly believe that we will be having the fruit of these projects. We decided to focus this year in order to rationalize costs and conclude the integration of these stores.

And now, also working on maturity, we believe we will have better results in the 4Q and primarily in 2013. We firmly believe in what we are saying.

So, thank you very much, and now all our officers here will be happy to take any questions you may have.

Fabio Monteiro, BTG Pactual:

Good afternoon, everyone. My question has to do with Lojas Maia. You mentioned the gross margin of Lojas Maia is about 4 p.p. lower compared to the rest of the Company. I would like to know what you envisage when you think about lowering or closing that gap.

Can you bring it down to zero or by half that difference? How long will that take? And how do you plan to that? What is the heaviest weight? A joint acquisition, or adjustments to the mix or adjustments in product pricing? Could you elaborate on that, please? Thank you.

Marcelo Silva:

Fabio, now with the integration we have a much better view of our inventories and our margins, because they are the same systems we have at Magazine Luiza. As a result we began to have more visibility, and from the moment our commercial area, by the way, has been having joint accounts. Since last year we have just some local purchases from local suppliers. More than 90% of procurement is a joint process.

So, we are growing in that direction. On a quarterly basis we are evolving, improving our margins. We have mark to market, different mix, but we are also introducing Magazine Luiza's mix gradually in other stores. We believe that within a year or over 2013 we will get closer and closer, putting the Northeast margin closer to the Southeast margin. We do have distance and freight in the Southeast, and we have to send everything over to the Northeast. We do have differences; e-commerce, for instance, with different margins. Some stores in the countryside can have different mix of products, but by and large there is a gradual growth in margins and certainly they will be closer to Magazine Luiza's margin as a whole.

I believe that over 2013, now that all the systems are fully integrated, we will be able to see that more clearly. It is just a matter of gradually being adjusting our margin to the Northeast.

Fabio Monteiro:

Great. What about expenses as a whole and the Company as a whole? I would like to have a better understanding of your expectations for the next 12 or 18 months when it comes to the economy or the sale per se, or the sale percentage. What can you imagine in terms of improvement of SG&A over the next 12 to 18 months?

Marcelo Silva:

We have already started to capture this production. We have a project to rationalize costs and expenses, and this project will remain in 2013 very strongly. In administrative expenses, and now that we have the integration of Lojas Maia, we transferred many back office functions to the South and Southeast in Franca, São Paulo, and that will be reflected in 2013, certainly.

We have already started to have a store-by-store, area-by-area analysis of performance in the Northeast, and that will bring impacts both in the sale, margins, expenses, region by region, store by store. So, we are very confident to say that we will be capturing gains of synergy.

I cannot say for sure, give you any actual figures. First of all, right now we are just closing our budget for 2013. But certainly I can tell you that we will show gains of synergy, absolutely.

Fabio Monteiro:

Thank you, Marcelo. Just one last question. Not only Magazine Luiza, but other companies, how do you believe the increase in CDC, or direct credit to consumer? Do you see that increase as something that has come to stay, or how do you feel that move or this product in the market, which is stronger now? Could you comment on that, please?

Magazine Luiza:

We conducted a study with Itaú about LuizaCred, and we realized that some customers or new customers, sometimes it was more proper to have CDC rather than card, considering the costs related to cards, so on and so forth. So, for that customer profile to which CDC fits better, we are using CDC. And for those customers that are more related to cards or also our old customers, we continue to have Magazine Luiza card at full speed. But for new customers with different characteristics, like the first purchase, first of all we offer CDC. It was something that in my opinion has come to stay.

Barp, do you have anything to add?

Marcelo Barp:

Good afternoon, Fabio. When we speak of CDC, actually we are considering installments, some of our customers, for instance, used to buy first with a credit card and then would no longer use the credit card and we had to pay all the processing cost of the credit card, and also the limit that would be permanently there. Per customers we have to pay 1%. Now, we can better cater to the customer and the same risk concept that we use for the cards. But we can maintain the risk, maybe we can approve a larger number of customers.

Another important point to highlight is that some customers that during the CDC payment are interested in having a credit card, we can encourage them to have relation with the stores and maybe have a card in the future. That is a trend that has come to stay.

Frederico Trajano:

Fabio, the result curve of CDC is more positive in the short run compared to credit card, which is a longer maturity product. As the impact on LuizaCred it has to be positive, improving its share in the total risk.

Fabio Monteiro:

Great, I agree. Thank you very much to all of you.

Irma Sgarz, Goldman Sachs:

Good afternoon. My question is about margins again. When you focus on retail only excluding Maia or the Northeast stores that were 29.4% this quarter, I would like to understand when you compare this 29.4% with last year, how well the evolution, in other words, how much? I would just like to come to an estimate on the magnitude of e-commerce.

I would also like to understand how you see the growth for improvement in the future. Is that a plausible offer, for instance, with the margin gains in the Northeast? Do you expect to see any increase in the consolidated margin for retail? In other words, the synergies captured in the Northeast may be offset by e-commerce, for instance?

Roberto Bellissimo:

Good afternoon, Irma. In terms of the margin of the South and Southeast without the Northeast for this quarter compared to last year, we can tell you that last year we had about 29.5% in Magazine, plus 23.2% in Baú stores, 29.4% is slightly lower than Magazine. However, it shows that Baú stores already have a very similar margin compared to Magazine stores in the South and Southeast.

Just highlighting that we expect that after the system integration we will be evolving our gross margin in the Northeast stores, and the same level of South, Midwest, and Southeast. That will be more similar in all regions.

So, we have this level of 29.4%, which is slightly lower than the 29.5% at Magazine. And looking to the future, e-commerce tends to grow above Company's average. Almost 15% peak of our sales and they tend to grow even further.

Gross margins are some p.p. below the average for e-commerce, but this gross margin is very much linked to expenses that are also below the average. And as a result the EBITDA margin for e-commerce tends to increase the consolidated EBITDA margin for the future, reducing less proportionally than the expenses.

Irma Sgarz:

Perfect. Thank you.

Tobias Stingelin, Santander:

Good afternoon. I am sorry, I apologize if somebody has already asked this question before, I arrived late. Still about e-commerce, we see a clear trend in some players in the market to lower our growth rate considering too much competitive pressure on gross margins and also at the bottom line.

We believe they also have a clear accounting system. They analyze closely the results. I would like to understand – obviously you do analyze very well this performance, and you are very accurate – do you believe that at a given time you should reduce, or you work to reduce this growth? Or do you already have a different mix, maybe more furniture compared to other players and maybe a better perspective for e-commerce profitability?

I would just like to understand your strategy when it comes to top line and bottom line growth for e-commerce. And then I have another question on credit. Thank you again.

Frederico Trajano:

Tobias, good afternoon. First of all, I would like to say that our accounting system is very clear when it comes to e-commerce, because they are internally broken down separately for our administrative management. We do not report that to the market, just out of a decision, a strategy decision of the Group.

We do not show these numbers in our income statements, or internally. We have a very detailed view of sales, specific e-commerce margin, expenses, very good proportionate of the shared expenses, broken down to our internal management.

Now, more specifically addressing this, this year we are growing, year-to-date sales are about 37% vis-à-vis last year, and we maintain our gross margin. In our case more specifically, we are managing, unlike the market, to grow way above what we can see in the market, by maintaining our gross margin for e-commerce more specifically.

Consequently we improve the EBITDA profitability and also gross income of this channel, although we do not disclose our operation figures. So, for us there is no reason to step on the gas our growth more significantly, because we are managing to grow with improved efficiency, conversion, and also better activity on the marketing operation.

Tobias Stingelin:

Thank you for your answer. Can you give us an idea of your mix in e-commerce? Has it changed, for instance, compared to last year? Did you have major changes?

Frederico Trajano:

The mix remains the same. Gross margins are maintained flat vis-à-vis last year. Virtually all categories are growing at the same level, around 37%. Once again, way above the market.

Tobias Stingelin:

What about furniture? 30%, 20%, 15%? Electro-electronics, 80%? Can you give us an idea or you would rather not disclose it?

Frederico Trajano:

Unfortunately we cannot disclose those figures, Tobias. I am sorry.

Tobias Stingelin:

OK. What about credit? I do not know if this question was already asked. How about spreads for next year? I know that is a very strong debate a couple of weeks ago. How do you see the scenario for last year when it comes to interest or credit for financial operations more specifically?

Marcelo Barp:

Tobias, good afternoon. We are getting ourselves ready. We are present in the market and we already had this will to charge the least possible from our customers vis-à-vis the competition. By the way, we were never a player of higher rates. And we are getting ourselves ready both for sales and to lower our operating expenses, we are in synergy with sellers of Magazine in order to have a dilution of our personnel expenses and also new products.

Now I mention our plan to integrate Itaú cards to our operations in 2013. That is part of our planning. Another action we did is to launch personal credit in our credit cards at significantly lower rates compared to what we had before. We are getting ourselves ready to become more robust and to have lower rates compared to what the market charges our customers.

Tobias Stingelin:

So, basically introduction of new products, is that what you mean?

Magazine:

New products and a reduction of our current rates.

Tobias Stingelin:

OK. Thank you again.

Operator:

There are no further questions. We would like to give the floor back to Mr. Marcelo Silva for his final remarks. Marcelo Silva, you may proceed.

Marcelo Silva:

Once again, thank you very much for joining us. I would like to underscore again, like I said, we just mentioned that our outlook is very positive. And as of the 4Q we expect 2013, when it comes to the Brazilian economy, we expect it to be better compared to 2012. Our growth will be maintained above the market average on same-store sales, e-commerce growth, and also with synergy of all our chains fully integrated.

We firmly believe that the year of 2013 will be far better than this year, reaping the fruits of our management and our focus for 2012. And certainly we will have better results for the Company.

Thank you very much again, and see you next quarter.

Operator:

Thank you. This concludes Magazine Luiza's earnings conference call for the 3Q12. Thank you very much for joining us for this call. Enjoy the afternoon.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company's investor relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript."