Operator:

Good afternoon and thank you for waiting. Welcome to Magazine Luiza's Conference Call to discuss the results of the 1Q15. 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, we will have a question-and-answer session, when further instructions will be given. Should any participant need assistance during this time, please press *0 to reach an operator. The replay of this event will be available soon after it ends, for a week.

We would like to mention that forward-looking statements that might be made during this call related to Magazine Luiza's business perspectives, operating and financial projections and targets are beliefs and assumptions of the Company's management as well as information currently available. Forward-looking statements are not guarantees 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 performance of Magazine Luiza and may lead to results that differ materially from those expressed in such forward-looking statements.

In order to open this call, we would like to give the floor over to Mr. Marcelo Silva, CEO, who will make the presentation. Mr. Silva, you may begin.

Marcelo Silva:

Good morning, everyone. Thank you very much for participating in our call to discuss the highlights of the 1Q15. You can see that the net revenue was practically stable, R$2.25 billion vis-à-vis R$2.78 billion, practically the same figure with a reduction in same-store sales. Physical stores in the Southeast, as the Northeast continues to be positive.

Growing same-store sales and e-commerce growing by 9.2% vis-a-vis e-commerce – the share that last year in the same period was 16%. Now it's almost 18% or 17.9%.

Another highlight is the participation of operating expenses of the Company growing only 1.6% in spite of all the cost components that suffered effects such as collective bargaining, energy prices and fuel prices etc, we grew only 1.6% and then the rest of that, we'll be talking about these figures in more detail.

As a consequence we got an improvement in our EBITDA, growing by 5.5% vis-à-vis the same period in the last year, and this represents 5.7% in the 1H.

I would like to mention that we will be talking about LuizaCred later on, but I would like to say that the equity income increased to R$23 million, and you will see one thing that is of great concern to everybody, which is delinquency under control, and we will be giving you details about that later on as well.

So our net income was R$2.9 million, net margin close to zero, but it was reasonable within the circumstances, especially when we observe the participation of sales and lower traffic, a more challenging scenario, and in spite of all that we were able to keep our margins and a very small growth in our expenses in spite of all the factors and the lower sales and then increase in financial expenses mainly due to the increase of the interest rate that has been happening consistently by the Central Bank. These are the main reasons not to have an increase in our net or a more satisfactory net income. So, this is a bird's eye view.

And now, I would like to ask Roberto Bellissimo to get into details about our figures.

Roberto Bellissimo:

Good morning, everyone. On page three, we show the evolution of the number of stores. In 1Q, we have opened three stores, and in the last 12 months, 15. On the right, you see our investments, from R$17 million to R$33 million in 1Q, including investments in many stores that will be inaugurated in the 2Q and the 3Q. The average age of the stores are shown here, practically 40% are still maturing.

On the next page, we show the evolution of our sales quarter on quarter, and here we show that we had 26.6% in 1Q1. So the comparison basis for 1Q was very high. Internet, it was 44% and we grew 9%, reaching almost R$500 million in sales, in our e-commerce in this quarter, increasing the participation, the total sales of the Company and same-store sales, we compare -3% to 25%, whereas in last year, as you can see the base is very high. And if it were not this category, we would have had 5% growth compared to last year, very much influenced by the World Cup.

We're talking about the image category here, so excluding TV sales growth, sales growth would have been almost 5% increase. So in the first quarter, you don't have this kind of sale of image products, and this is a reason why.

So, on the next page, we measure the evolution of gross profit and the maintenance of the gross margin at the same level, 27.3% basically unchanged. Operating expenses, as you can see, selling expenses practically stable R$421 million, SG&A with a slight increase due to collective bargaining, and an increase in other revenues. The total of operating expenses was around 22.8%, slightly lower than last year, which was 23%. As you can see here from 1.2% increase, equity income mainly due to the performance of LuizaCred, which had a return of over 50%.

On the next page, we have the EBITDA quarter on quarter, R$127 million this year, compared to R$121 million in the 1Q last year. And on the chart, a variation in expenses and that were offset by equity income as you can see here, and the others reaching 5.7%.

On the next page, the variation of our financial results. First, on the upper part, there was an increase in the CDI of almost 20% quarter on quarter, and the variation of the working capital as well, which also affected the variation of our net debt in this quarter.

Net debt varies R$378 million and the suppliers versus inventory accounts varied R$476 million. If you remove the variation of these two line items, it would have reduced. And as you know, this is very cyclical and very seasonal, and it should vary over the next few quarters; and actually the 1Q is the worst quarter because of working capital, due to the payment of all the bills of the previous year. And over the year, the trend of retail as a whole and ours as well is to see a drop in working capital, especially in the 2H of the year.

On the next page, we show our net income, and it was practically R$3 million with a higher financial expense. And on page number nine, we show the results of LuizaCred, revenue growing practically 10%, mainly in the Luiza Card, and we believe this is a very important to increase loyalty.

And you can see, the CDC and personal loans have decreased such has happened already last year because of conservative policy in terms of credit assignment CDC or direct consumer credit from R$316 million to R$243 million direct consumer credit. So R$70 million less in direct consumer credit and this explains in part the lower growth in our sales, and also impact on the LuizaCred results.

But if you look year-on-year our portfolio, you can see stability, a very high degree of stability, the delinquency indicators are stable, past-due over 90 days, even improved vis-a-vis December, and because of that LuizaCred was able to decrease provisions for bad debt, and as a result of LuizaCred, well, it grew quite a lot, practically 20% with return on equity, as you can see.

And I would like to talk about our expectations for this current year. Our focuses are multichannel strategy. Until a while ago, we were seeing as a tradition of store with brick and mortar stores and selling appliances, and now we are working to have a digital company, a multichannel company, this is very important. But keeping all the human side and friendly side of Magazine Luiza.

So, we have been working on this strategy very strongly and our website is fully integrated with the Company, and the website participated in the same marketing actions as DC, distribution and the interrelation of the website with the brick and mortar stores. So this is our fundamental basic strategy for the next few years and we continue to be very confident, growing more than the average of the market.

We are not comfortable having only almost the same sales as last year. We will continue to consolidate the Northeast.

The Northeast continued to be positive in the 1Q and certainly will continue to be positive as well as e-commerce growing and we maintained our competitiveness and our media visibility is very strong from January and December, we have our sponsorship of soccer in the global network. We have a new commercial or campaign, a very strong one that balances or tries to balance this reduction in traffic from our consumers as the degree of confidence by consumers has been the lowest in the last ten to 12 years.

Cost rationalization is a target for every day. So, this is what we do in our DCs, in our stores. And the selling expenses or the administrative expenses always having our attention in terms of reducing them. And our focus on profitability of the Company quarter on quarter. The 1Q was very, very tough. And we understand that the second quarter will be a little bit less, maybe, and we believe the third one will be a little bit better. And the 4Q when we compare on a year-on-year basis, we see the opposite curve, a very strong 1Q and the 3Q is less strong, and the 4Q already giving signs of a certain decrease in consumption overall.

And now in the 1Q, we see this as the worst for this year. The second, not so bad. But it will still be a very difficult one, and with some improvement in the 2H of the year from the external viewpoint. Internally, our team is very confident, intense communication with the base of our organization and always trying to make our people be engaged, and we track the performance store by store, each manager is like the owner of his or her store, and as we have been doing in the 50 or some years. We have gone through crisis before, this is a year of crisis, but we remain confident that we will overcome this and the Company is more robust to grow in 2016, 2017 etc.

Now, all the members of the Executive Committee of Magazine Luiza are available to answer any questions that you might have. Thank you.

Guilherme Assis, Brasil Plural:

Thank you for the question, Roberto, Marcelo. I would like to talk about the sales performance, and try to have some more color regarding the mix. In the release, you said that there was a deterioration in one line. What about the other categories, you talked about image, and what about smartphones and white line and furniture, so that we may understand from now? And also, I would like to know with the change in the mix in this sales performance could have some impact on your gross margin from now on?

And the second question, I would like to know the situation of inventories. I understand that sales were weaker than expected in spite of a very high comparison base as you set yourself, which led to a slightly higher inventory. So, could you talk about the measures being taken regarding your inventory vis-à-vis the demand that you believe will come from consumers? Is there the risk of having to decrease your inventory at lower prices with impact on your margins for the next few quarters? So, these are my questions.

Marcelo Silva:

Thank you very much, Guilherme, for your questions. I will start, and then Fabricio, our Commercial Officer will be talking about categories etc. As Roberto said, if we do not consider image because of the World Cup last year, which was one of the major drivers of 25% growth in the 1Q14and the 2Q14. The other categories have grown 4.8%. And Magazine Luiza gained market share both by the IBGE and GFK.

In absolute terms, that was not a good performance, but in relative terms, the performance was good, because practically we showed the same, you can see the figures there. So it was a good performance anyway.

Of course, retail needs to grow, same-store sales because of the costs that go up, and in spite of that, we made a huge effort in terms of cost reduction. Just to give an idea, our personnel expenses was R$259 million, and this year, in the 1Q, R$234 million. Our payroll expense is lower this year than last year in spite of the collective agreement of 7.8%. Our SG&A, our total SG&A was R$509 million last year and it was R$503 million this year. So it's reasonable. Of course, it's not good, but it's reasonable.

And costs go up, energy went up 30%, freight, fuel and the Company has been making a very good endeavor in terms of rationalizing costs in order to have a new employee franchise, all the Executive Committee has to approve that, and we are making many changes in the 1Q as well. So, if we see an improvement in consumer confidence, we will be leaner, much leaner, we will be much better prepared to face this period from now on.

This is one part of the question or the answer. And Fabricio, our Commercial Officer will be talking about expectations regarding margins etc.

Fabricio Bittar Garcia:

Thank you for the questions, Guilherme. In relation to sales, Marcelo said it very well. Our smartphones and cellulars have been growing, but besides we have a very sound performance vis-a-vis last year. And you had asked about furniture as well. We see growth in this quarter. So I think this is a trend for the year, smartphones and furniture. We are making the necessary fine adjustments. We are going to have a very important event in retail right now.

Guilherme Assis:

How do you see demand for Mother's Day, which is this coming Sunday? Could we expect something better than what we saw in the first quarter, any improvement driven by Mother's Day, or do you think consumers are too cautious in this regard?

Frederico Trajano Rodrigues:

This is Frederico. Thank you for the question. So the main days for purchases for Mother's Day are today and tomorrow. So far we have seen a good performance, but we have to keep in mind that, last year May had the highest image sales ever because of the World Cup. So, if you remove the TV category, the performance of the other categories is very good, but the general figure is affected by the same reason that we have already mentioned and the same regarding June. But as you asked me about Mother's Day, we had the biggest sale of TVs last year, and it was in May. But the other categories are performing well.

Alencar Costa, Goldman Sachs:

Good morning, everyone. Let us talk about working capital. I know that there is seasonality regarding working capital and suppliers trade accounts, but suppliers, they dropped more than you historically had, 80, and now we have 70, was there any other factor besides seasonality?

Roberto Bellissimo:

Good morning, Alencar. Working capital as a whole, we have already talked about it during the presentation. In 1Q, it was higher and the trend is towards normalization. In terms of suppliers, there are some things that you have to keep in mind. We bought less this quarter than in the 1Q14. There are two ways you can calculate this.

And the right ones, which is the reality is over purchases, and that's our inventory brought from December to March, our purchases were less. And if you calculate this based on the effective purchases we had 72 days of average, which was in line with the 2Q14, 3Q14 and the 4Q14, comparing this to CMV it seems that it dropped quite steeply. This is the result from the sales.

So, these are the accounts payable for the 1Q because the accounts paid as of December matured over the 1Q, so what we bought in the 1Q as you sold less, we reduced our inventory from December to March. So, we have lower accounts payable with an average term of 72 days, and we will go back to buy more in the 2Q and the 3Q and the 4Q if they are more favorable, and they should up again the suppliers trade account. And on the other hand, our inventories tend to drop as well improving by one day, inventory days, and in the 1Q.

The 1Q was slightly affected by lower sales, and due to more strategic purchases in the 1H and the transfers or cost increases, we would have bought a little bit less, but we bought more because of the strategic purchases. But the trend for the next few quarters is a trend for improvement and the trade account will also be improving. And we believe that this variation is very seasonal, and that's affected by the factors that we have just mentioned.

Alencar Costa:

I would like to ask another question. Deferred revenues this quarter vis-a-vis the last quarter, around R$23 million, if I am not mistaken, vis-à-vis an average – a lower average for 2014 in deferred revenue.

Roberto Bellissimo:

We had the recognition a part of the money that we received from Cardif, which is something that we signed in 2011 and which matures in 2015. And we have practically complied with our older targets already. And we just a few months for it to come to an end. And we are about to renew these contracts, that mature this year, but the difference of approximately R$20 some million to R$8 million was basically due to this factor. And by the end of the year, we expect to conclude this process with relation to our partnership with Cardif, which ended in the 10th year and we were very successful, and they were very successful as well, and also we have the partnership of Luizaseg.

Felipe Rogado, BNP Paribas:

Good morning. You said that your CAPEX expectation for 2015 would be around R$115 million opening up to 30 stores and you opened three stores this quarter. I would like to understand your CAPEX outlook for this year. Thank you.

Marcelo Silva:

R$115 million was estimated to 40 to 50 stores. The stores in the 1Q, many of them will be opened now. We are talking about the ten stores of Via Varejo approved by CADE and this was contracted last year, and three other rentals that were signed last year and we will be opening them.

In the 2Q, we should have an addition of 15 stores, but we will be closing – we have 20 stores being closed in the 1Q. We are more cautious with the opening of stores in the 2Q. We had to close some stores last year, at the end of last year in order to make it possible to open new stores in the 1Q and we have to rent stores at the end of last year and beginning of this year.

For the 2H and we are more cautious for the 2H of the year about the stores that were Ponto Frio and other ones that we closed last year, we will be opening up to June 30h. So, this means 20 stores. And I believe that May, well, an additional ten stores will be opened in the 2H14, and I believe that 30 overall is a figure that we consider as reasonable for this year, 2015.

Felipe Rogado:

OK. Thank you.

Operator:

As there are no more questions, I would like to give the floor back to Mr. Marcelo Silva for his closing remarks.

Marcelo Silva:

Thank you very much everyone for participating in our call. I would like to finalize saying that when you have a difficult time, we have to be more creative, and this is what we are doing right now. Thank you very much.

Operator:

Thank you. Magazine Luiza's conference call about the results of the 1Q15 is closed. You may disconnect your lines. Have a good day.