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CONFERENCE CALL TRANSCRIPT

3Q15 Results

November 11th, 2015

Operator:

Good morning and thank you for waiting. Welcome to Magazine Luiza's 3Q15 Earnings conference call.

We would like to inform you that this call is being recorded and that all participants will be in listen-only mode during the Company's presentation. After which we will have a question and answer session, when further instructions for you to participate will be given. Should you need assistance during the call, please press *0, if you wish to reach the 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 targets and projections, 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, 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 to Mr. Marcelo Silva, CEO, who will make the presentation. Mr. Silva, you may begin.

Marcelo Silva:

Good morning, everyone. Thank you for participating in this call, during which we will be talking about the results of Magazine Luiza during the 3Q15.

We have all the officers of the Company with me and they will be available to participate in the Q&A session so that they may answer specifically questions that have to do with their specific department.

I would like to start with the highlights of 3Q15, starting with sales. In spite of the consolidated net revenue being lower 13% year on year, we continued to gain market share and also increase our gross margin.

This year-on-year comparison has two strong components. One is the comparison basis; we grew 15.7% in 3Q14, a very strong comparison basis, and this year the economic scenario is quite challenging for retail and for the economy as a whole. The main indicator is the drop in consumer confidence, which is at an all-time low.

In spite of that, we saw our e-commerce growing steadily, increasing its participation in our total sales. We grew by 9.2% on a year-on-year basis in e-commerce and today e-commerce sales already represent 22% of total sales. Last year, it was 17.5%, so almost 5 p.p. more.

What is happening every quarter year on year are 5% or 7% gain vis-à-vis the previous years when we compare the last 12 months, which means a growing participation of our e-commerce in our total sales.

In brick and mortar stores with 4,000 items, for instance, we already have 45,000 SKU in our e-commerce. In spite of the drop in sales, we were able to maintain and even improve our gross margin 29.5% of net sales.

And this is because: of the mix, we have a better sales mix, last year we still had the effect of the margin and now the mix is normalized; we have started to charge for shipping and assembling; we have a greater participation of service revenues growing our financial services more than the sale of physical products; and we have been trying to negotiate the best terms possible with our suppliers, in spite of knowing of the difficulties because of many products that suffered price increases because of USD, and we have been working with our suppliers in order to improve these terms.

In spite of the improvement in gross margin, sales is a significant factor and up to last year we had been doing this very well. However, now we were not able to dilute operating expenses and we had it 1% lower over last year in nominal terms. As a consequence, our EBITDA margin dropped year-on-year, being 5.3%, with a total of R$110 million in 3Q.

Equity income of LuizaCred and Luizaseg continued to have a good result and we will be able to go into more detail about these two companies momentarily, representing R$55.1 million in 3Q and representing 1% of our net revenue already.

Another very important point that deserves to be highlighted is the improvement in our operating cash flow of R$93.5 million this quarter. This certainly was due to very hard work done by operations and commercial in order to balance our inventories and you can see that we have a gradual decrease in inventories with a better and better and more streamlined inventory management working with our suppliers.

If we look at the curve, we see a reduction quarter-on-quarter. In one way or another, we have been improving our average buying time.

Overall, of the negative result, when we look at the net revenue and we compare the 3Q15 to 3Q14, we say that, although the result is negative, we consider this as reasonable, given the circumstances of the current market.

In order to get into the details of the Company's performance, I would like to give the floor to Roberto Bellissimo, our CFO, who will get into details about the performance of the Company in 3Q.

Roberto Bellissimo:

Good morning, everyone.

On page number three, we show the evolution of our number of stores. In this quarter, we opened 18 stores, the highest number of inaugurations in the year. For the year, we already have 24 and an additional six planned for the year-end. We see here, in terms of investments, that most of them are being made in new stores, more than last year, of R$12 million to R$29 million in new stores.

And the number of remodelings went down to R$29 million in remodeling of stores. We increased a little bit our investments in IT and R$10 million in logistics, for the year as a whole, investing practically the same as we invested last year around R$100 million.

We have 780 stores and we still consider that 25% of our stores are still maturing, so we have increasing sales quarter-on-quarter.

On the next page, we show the gross revenue for the year. We are dropping 8.8% to R$7.5 billion, versus 22.4% of growth from last year. Same-store sales in the quarter in physical brick and mortar stores had a reduction of 21%.

Just to give one example, not considering the DCC, that dropped 50% because of our conservative position, the other means of payment dropped by 16%, so if it had stayed at the same level our performances from brick and mortar stores would have been around 16% and the performance, including e-commerce, at 11%, not 15%. This was the effect of reduction in the approval rate of our conservative stand in terms of approving direct consumer credit.

Here, we have the growth of our gross revenue, over R$1.4 billion in the 9M15, and if it continues at this pace, it will exceed R$2 billion this year.

On the next page, page number five, we show the evolution of the gross profit, gross margin and operating expenses breakdown, the reduction in the expenses of sales and a slight increase in SG&A.

Overall, a reduction of 1% nominally year-on-year due to lower sales performance, but nominally dropping just 1% because of a very hard work being done and equity income continues to be productive and representing 1.1% of our gross revenue.

And I would like to mention the performance of LuizaCred and Luizaseg, with an over 30% return on equity.

On the next page, we see the evolution of EBITDA, R$364 million in the year, increasing 5.7% here and a margin EBITDA of 5.3%. We had a bigger weight of expenses here, but it was not enough to offset the weight of expenses. In 3Q14, we had our best quarter ever in terms of margin; we had achieved 7.4% and this year 5.3% of EBITDA margin.

In a breakdown of the financial result, we have prepayment and debt service. Card prepayment represents the most part of the financial expenses, as you can see on the chart, R$47 million are basically the net debt service, both going in line with the increase of over 25% of the CDI in the period, on a year-on-year basis.

On the lower part, we show you the working capital evolution. We had an improvement at the net working capital, very much impacted by the improvement, as Marcelo said, of inventory turnover and the average purchasing term. Given the circumstances, we have a good inventory turnover, it is already better than last year, and the average purchasing term is growing.

When we compare this to December last year, we still see an increase in this need of almost R$350 million in this line of suppliers and inventory. This is not the projection, it is just the statement that, if we are able to go back to last year's position by the end of this year, we will get a reduction of R$350 million in our net debt, so R$1 billion level and some other factors involved. In this quarter, we maintain the net debt at the same level, thanks to an operating cash generation of almost R$100 million.

On page number eight, we show the evolution of the net income, practically breaking even over the year, very much impacted by the increase of the CDI and also financial expenses.

On page nine, we have the performance of LuizaCred. Sales of LuizaCred grew almost 1%, highlighting the use of cards at Magazine Luiza, whcih grew as well, and also grew outside of Magazine Luiza even more. The DCC had a 50% reduction from R$300 million to R$150 million and personal loans as well, which shows a conservative stand by LuizaCred over the year as a whole, in terms of credit assignment.

With the lower approval rate, in spite of that, we were able to increase our card base and loyalty from our clients by 5%, from 3.4 to 3.6 million, in spite of a more conservative stand, in terms of credit assignment, not only at the DCC but also at cards.

We show that the short-term post-due portfolio had a slight improvement this quarter compared to June. In the long-term, it increased a little bit, basically due to economic factors, such as a rise in the unemployment rate, etc.

On the next page, we talk about a new partnership that we signed between LuizaCred and Losango. At the end of October, we started with the first stores, and by the end of October all these stores were working with Losango as well, and from now on all the stores will continue to work with Losango. Losango is approving the clients that LuizaCred did not approve; and that Losango wishes to approve.

I think it is really a win-win situation, a win-win partnership, because Magazine Luiza increases sales and Losango is already representing between 3% and 5% of sales and brick and mortar stores and preserves the strategy of Luizacred and Losango as well, because everybody tends to win with this partnership.

Now, I would like to give the floor to Frederico, who will talk about our digital transformation.

Frederico Trajano:

Good morning, everyone.

I would like to talk a little bit about our strategy. In spite of this moment of crisis and mainly because of this moment of crisis, the Company will stay true to its long-term strategy and our plan has a vision, which is to transform the Company, which is a traditional brick and mortar retailer, into a digital Company, with points-of-sale and human warmth. This is already being implemented, now more intensively with this plan and the changes we carried out last year.

We have a whole series of projects that are based on five main pillars. The first one is multi-channel. We are today the only Company that is really multi-channel in the market, we have a unique operating platform, catering to many different channels. The same administrative structure and the same brand, but in one single platform catering to many different channels. We are talking about virtual stores, telesales, B2B and brick and mortar stores.

Because of that, we have a major increase in our e-commerce and we are the only Company having a positive result in e-commerce due to all the advantages that we offer in one single operating platform. I would like to remind you that all our competitors have different platforms; for instance, you can buy at our e-commerce and you can return it at the physical store.

So, with an integration of our distribution centers, we cater to physical stores, brick and mortar stores, traditional stores and those who buy at the website, with the same delivery and the costs; that is to say, there is a reduction of 70% to 80% in these expenses, reducing our selling expenses.

The second point is the digitalization of our brick and mortar stores. In order to survive in the future, we have to carry out a deep transformation in our traditional stores. Any retailer in the world, and in Brazil we have significant projects to increase automation at the store with the objective of improving the shopping experience and reducing the operating expenses of the brick and mortar stores, reducing the support costs of the stores.

The major project for this objective is mobile sales, to improve the shopping experience of the client, reducing the term and the need for support on the part of the Company. I will get into details later on. Another one is the training project that we have with store managers to activate their POS.

The third point of our strategy is the digital inclusion. Fifty percent of what we sell today – smartphones, tablets, smart TVs, and computers – are IT products and we know we are living in Brazil and Brazil still has a low level of digital inclusion, although half of the population is already connected. Today, the degree of use or mastery of technology is very low, so the retailer has to include digitally these customers.

We were the first retailers to invest in technology and the digital assistant that we call Lu, not only for smartphones, but also for all the other devices, and Lu, our digital assistant, helps our consumers to make a better use of the technology they are buying.

Eighty percent of consumers that buy cellular phones only use two apps of a total of three million apps that are available through App store or Google store, so we want them to use more.

We were the first retailers to invest heavily in the improvement of the IT devices. We already have in the stores products that are available to consumers, they can interact with the devices. I think we were the first and the most consistent retailers to let our consumers really experiment with the devices; afterwards, I can get into details, during the Q&A.

Another important point has to do with our website strategy. We want to transform our website into a mobile digital platform, and this involves our endeavors in terms of launching the marketplace and selling the products that are not only in the portfolio of the Company, as well as in Magazine Você, which is a sales platform via social networks growing in our business model. A very successful platform is the wedding gifts platform.

Going from an e-commerce platform to a sales platform is very important, and creating a digital culture in the Company. We have 20,000 people, 500 are digital experts and we want the remaining 19,500 to become experts in IT as well, so we have to train them, raise awareness and give them the necessary skills, because part of our team is still analogical.

We are carrying out training for our managers and for sales people on how to sell mobile phones, for instance, so that 100% of our people can be digital. In order to make our clients more digital, we have to make our team more digital.

On the next page, we see three projects recently implemented, showing the consistency of our execution. One was a new sales app we launched last month, in which the consumer can buy the whole product line of Magazine Luiza. This app was launched at the App store and Google store, as well.

I think it is the best in the market. It is totally personalized, it is all custom made; one client is unique. What you see is different from what the other see, because it is based on your purchasing habits.

I would like to remind you that many consumers are buying through their mobile phones and very often the screen is very small, so we made a big endeavor to reduce all our stumbling blocks in the purchasing steps, reducing necessary steps, the consumers can buy with one touch.

We have done quite a lot of work in order to facilitate the life of our consumers because some of them have a very small screen in their mobile phones, integrating this to our multi-channel strategy, when the client is looking for a specific product, such as a TV set, he knows exactly where the TV set is available, so the app is already integrated with the brick and mortar stores. And we launched this in that pillar of the multichannel. And up until the end of the year, we have a promotion. All the clients who buy through the app will not be charged for a delivery. So, we have about one million clients with the new app, very important landmark. And that shows that we are on the right track.

And another important project, still talking about the digitalization of brick and mortar stores is the investment that we are making to automate the sales process. We have already done the mobile conversion in 80 stores. And it will be 180 by the end of the year. It will be bigger each year.

We are giving each sales person one mobile phone. And a salesperson has a system which is similar to Apple Store, to sell to the client at the store. This reduces the time from 45 minutes to five minutes, improving the client's shopping experience. At the mobile sales, there already are all the client's files, the product's files, payments terms, credit terms, everything integrated.

Reducing the time of the selling process and reducing the number of people that we need for support at the store, because the model is more multifunctional, meeting the needs of digitalization of the brick and mortar store, improving the shopping experience, and at the same time, reducing the operating cost of the store, so that the store can be competitive vis-à-vis the internet.

By the end of 2016, 100% of the stores, 100% of salespeople will be working with this system, because we will be including checkout. We will include the possibility of the client paying with the credit card. The mobile will depend on specific negotiations due to the tax legislation but we will have big gains in the shopping experience and the reduction of administrative costs of stores. And mobile assemble helps 50% of our furniture.

And we sell the assemble together, with the sale of the furniture. We have our own people doing the assemble. And in order to improve this experience, we have implemented this mobile assemble system, and the whole process becomes faster and more optimized, guaranteeing a better service for our clients. So we maintain discipline in the implementation of our vision, in spite of the crisis that we are going through. And part of the good results of our e-commerce is already because of the projects that we are implementing.

And I would like to give the floor back to Marcelo Silva.

Marcelo Silva:

Now I would like to conclude by talking about your expectations for 2015 as a whole. So we have already gone through three quarters of this year. We are already in November. But these are the main points we are working on. We are strengthening out multichannel strategy, which is the main strategy of the Company, the digital transformation, that Fred has gone into detail about. The number of stores that we will have implemented with these apps.

We are also working, and we continue to grow more than the average of the market. We have a growth above the market. Going to Northeast, the number of stores, our food print, our sales. And we will continue to consolidate the Northeast. We have opened many stores in the Northeast this year. We will be opening a new store in Ceará now and we intend to further consolidate our position in the Northeast.

And in order to grow and consolidate, we continue to maintain our commercial competitiveness, and our visibility in the media, with promotion and events and TV commercials. And this is a strength of Magazine. We continue to work to reduce our operating expenses to a certain extent. This is why we are reviewing our structure, the Company's overhead, the stores' headcount, and rental, in order to make them compatible with the sales' volume in the specific stores.

So we are detailing everything. And our teams are doing a very detailed work in this regard, so that we may further rationalize our expenses and costs, with the objective of making the operation more and more profitable, such as we did in 2013, 2014. 2015 with the drop in sales that we have been seeing both in our Company and in other retail companies, it is difficult to deliver a positive result.

But our expectation is that the last quarter should be, month by month, what we have been saying to our people. The next month has to be better than the previous month. We have a communication program with our people in our offices and our stores. And this is our moto: increase sales month by month.

This is a crisis, such as many others that we have had in the past. But we must look ahead. But if you do not grow in the retail, you end up dying.

So now we would like to answer any questions that you might have. Thank you very much.

Fabio Monteiro, BTG Pactual:

Good morning, everyone. I have two questions. The first has to do with e-commerce. You have achieved a 9% growth and the consolidated improved. There are two points I would like you to clarify regarding e-commerce. In e-commerce, are you being able to keep a small difference in the margin vis-à-vis your brick and mortar stores. And what is your expectation now that you have LuizaLabs. Could you talk about your expectation for the year-end and with the new app that you have launched, and sales for Christmas. So can you give us an estimate for that? And then I will ask my second question.

Frederico Trajano:

Thank you for your question. As we have been saying for a long time already, we reiterate the fact that our model is a model of profitability for e-commerce, both in traditional stores and e-commerce. We have a major margin control, so to say. So the margin of e-commerce vis-à-vis the traditional stores is much smaller than the one that we see from other companies that have this kind of operation.

We do not disclose this specific margin, but the difference is much smaller between e-commerce and brick and mortar stores. So of course the margin is slightly lower than the brick and mortar stores, but you have the flip side of the coin as well. All the projects that we implemented, the new app for the clients, "Mobile Vendas" for the stores' salesperson and mobile for the assemble person.

We are launching a market place platform by the end of the year. So all these projects are being fully developed by LuizaLabs. We have 75 software engineers that are doing a very productive work. It is a tough level team, it is not a very big team, but a tough level team, that has been meeting all the needs that we have in this digital transformation endeavor. I will say that we will have a good year-end for e-commerce, such as we had in the last quarter.

Fabio Monteiro:

Cool, Fred. And do you think that e-commerce can reach 40%, 50% of your sales? And what would be the time frame for that?

Frederico Trajano:

Fabio, it is very difficult to estimate that, because we continue to open new brick and mortar stores. And I think that the participation should not be a target. We have to think about growing all channels. We have to think the global profitability, the overall profitability of the Company. But if you extrapolate, based on what has been happening in the last years, it is not impossible to have something around 40-50% in four or five years' time.

But we are not seeking that. It is only because this is a market reality. And there is a growing trend in e-commerce. E-commerce is growing in spite of all the problems that we face in the Brazilian economy, so this is a characteristic of retail. This is what happens in the rest of the world, and we believe it will happen here. But we want to continue growing both in e-commerce and in traditional stores.

This is not a target. I reiterate that. But in four or five years' time, that would be possible.

Marcelo Silva:

And what or who will determine that is the client, as the client becomes multichannel. The client will demand whatever he/she prefers. So it depends really on the evolution of society as a whole, in terms of ITUs, what the clients prefer. Because many people still want to see the product physically, they want to touch. They have to have the product in their hands.

So this is why our strategy has to be followed, the multichannel strategy. And I agree with Fred, the percentage of e-commerce will be a consequence.

Fabio Monteiro:

Another question, if you allow me, about LuizaCred. The result of the operation itself, I want to try to understand for next year what we should think about it. Before taxes, you had worsening in the funding costs, because of the CDI increase in provisions, because of the increase in MPL. And in administrative expenses in LuizaCred, you saw a big increase as well.

Ultimately, the results of the LuizaCred operation before taxes was worse than we estimated before. So I would like to have your input more than 4Q, but going beyond, thinking about next year. Delinquency is deteriorating for everybody. And CDI, which is a proxy for funding costs will probably drop in the next few quarters. So I would like to understand what you expect for the results of LuizaCred for next year.

Marcelo Ferreira:

Thank you for the question. What we have, as our vision for the future, is that picture you have just described, will be maintained. Funding costs do not seem to go down in the future. And the segment where we operate, the main element that makes us look to the future and not see a decrease in MPL, is the issue of unemployment. The segment in which we operate is closely linked to that. And you can see that we are also reducing new credits.

You see the reduction that we had in direct consumer credit and the equation that we try to work with is expenses. And this is what we are doing for the whole year and also for 2016, proportionally reducing our expenses, because these two elements that I mentioned are elements that lie outside our control, they are market elements.

Fabio Monteiro:

Thank you, Marcelo. Thank you everybody.

Guilherme Assis, Brasil Plural:

Good morning, everyone. Thank you for the question. I have a few questions in fact. I would like to start with the commercial strategy on your part. As far as I can see, in the last couple of years, you had a very correct strategy, multichannel, and also investments that you made in marketing and promotions and the partnerships with suppliers and marketing in general. And it started with your investments in the World Cup, and this year with soccer. And having said all that, I would like to understand your strategy for the future.

The situation is rather complicated and mainly regarding your biggest competitors, it seems to me they are trying to adapt a more aggressive commercial position. And they have already announced that in 2016 they will be making an investment in soccer on TV. So what about your own strategy in this regard? And what is the outlook for sales and the continuity of gaining market share with a more competitive situation in the market and with a very complicated macro situation?

So, regarding your growth expectation, maybe comparing to the market, do you believe that you will continue to gain market share? What is the impact of that on your gross margin regarding your commercial and pricing policy and marketing expenses? This is the first question; afterwards I would like to ask a second question.

Frederico Trajano:

Guilherme, good morning. Thank you for the question.

We are not going to change our strategy, we are going to maintain our strategy, because even if you are very good or aggressive in cost reduction, any retail in Brazil or in the world needs growth to dilute costs and expenses.

I think it is a wrong strategy just to cut costs. We gain share at the same time, and this is what we will continue to do, regardless of isolated decisions regarding "Let's sponsor this or that". Marketing mix decisions are more complex than changing our strategy.

We will continue with our strategy of gaining market share. What we gained in market share this year is similar to what we gained last year. What happened is that the market as a whole dropped, which means that the cake is smaller than last year, so this impacted our results.

We do our share, but the market has to do its share, in terms of increasing consumer confidence and having the necessary positive policies in place in the market. So based on everything we are doing, the consistency of our planning and the investments we are making, both on our website and traditional stores, we will continue to gain market, increasing our service level and our profitability.

The decision of sponsoring soccer or the World Cup depends on the Company's plans. As we are having this very wide ranging program in place, regarding the digital transformation, we believe that next year we will have more adequate opportunities to make investments in offline media and with more freedom to be able to disclose our multi-channel platform.

This was a decision made based on the strategy of digital transformation, but this is not a change in our strategy of continuing to gain market share and carrying out promotions, because we have been rather successful doing this in the last few years, so no change there. What we have is one decision having to do with our strategy of digital transformation.

Guilherme Assis:

I would like to add to what you said. It seems to me that a major competitor of yours, that was less aggressive, is becoming more and more aggressive. If you have this situation, this scenario, what should we expect from you?

I understand you are keeping your market share gain policy, but do you think you will be sacrificing your gross margin? You had a few factors that helped your gross margin, such as charging for freight shipping and assembly. What I mean is, could we expect, let us say, if your competitor becomes more and more aggressive, that you would be defending your market share to the detriment of the gross margin?

Frederico Trajano:

Guilherme, we are already ten days into November, October is over, and the market is more aggressive since the beginning of the year, not only one single competitor. The price levels in the online market are really below the cost of the item, so it is totally irrational. We see in the balance sheets that are being published that it makes no sense whatsoever.

This year and the other years as well, I think aggressiveness on the part of the market will continue, and if we do our homework, we will continue to gain market share, preserving our margins; we intend to preserve our margins.

If you look at our historical margins, they are rather stable for the last five or six years, and we try to be very careful with that, because a reduction of one or two points has a huge impact on the bottom line. We are very careful not to grow to the detriment of our margin. It is very difficult to say what will happen in the future or every month, but the business model adopted by the Company is not going to change, as the commercial strategy will not change. I cannot talk about the market.

Marcelo Silva:

Guilherme, we do not like to talk about competitors, but our main competitor has always been the champion of the media. So it is not changing, this has been the same for many years. We will continue with a lot of visibility in the media, only details will change in 2016. Whether this is a championship or what, retail has always been aggressive in media, mainly on television. This is one aspect of market share preservation.

But the relationship with consumers and a whole series of actions that we carry out and all the promotions that we carry out over the year, and the relationship of the Company with the headcount and the headcount with the client, are really strengths of Magazine Luiza and we will preserve that. We believe that we will continue to gain market share.

Guilherme Assis:

Thank you. One last question, could you talk about your agreement with Losango? How does it work? I understand that you already have an agreement with LuizaCred, which is a JV of the group, and that they have the right of first refusal; as of the moment, LuizaCred denies credit and Losango assigns credit. This has become an agreement between Losango and the consumers, so Magazine Luiza does not run any credit risk, is that correct?

And does the agreement involve any payment besides the financing fee? Does Losango pay Magazine something to have access to the portfolio?

Roberto Bellissimo:

Guilherme, the agreement involves three parties: Magazine, LuizaCred and Losango. The process at the store is automatic, it is almost seamless. The client data go first to LuizaCred, automatically. LuizaCred processes the credit score; if it is approved, it will be a LuizaCred client, otherwise the data are processed by Losango credit score and in less than five seconds, we have the answer and the direct consumer credit is either approved or not approved.

It is a very automatic and very fast integrated process. LuizaCred continues to have the right of first refusal and, following its strategy, the agreement with Losango provides for commercial conditions. There was no prepayment of any amount, otherwise we would have communicated this as we have different revenues, but our main objective is to preserve our sales, the client and the funding mix.

Of course there are conditions involved, but our focus, as far as Magazine Luiza is concerned, is not a focus only on profitability. We do not participate in the credit risk, this is a decision made by Losango based on the same interest rates and commercial conditions that we practice with LuizaCred, and simply Losango approves or not on a transaction by transaction basis.

We have a profit sharing agreement, but we do not share any credit risk. Losango is an expert in the product, they are the biggest company in this segment, with over 20 million clients in direct consumer credit, and they have the possibility of increasing their business as well and making money. So we believe this is really a win-win situation for all the parties involved.

Guilherme Assis:

Thank you, Roberto.

Tobias Stingelin, Credit Suisse:

Good morning, everyone.

Marcelo, you were saying that you are implementing initiatives and that month by month you are getting improvements. Can you tell us about, over the 3Q, how much sales have increased month by month? And also, if you could talk about October and November and how do you see Black Friday as well.

Marcelo Silva:

What we say to our people every single week by means of TV Luiza, and we have a very intensive communication with our people, is that when we close one month, the next month has to be better than the previous one.

October was better than September. I am not giving you a bullish or overly optimistic message here. Given the market circumstances, we have to make our people continue to be motivated and believing, because we have been in existence for 58 years. We have been through so many crisis already, in 2008, 2009 and more recently in the macro prudential measures, so we have 20,000 working for Magazine Luiza and they have to be motivated.

October was slightly better than September, and November will be much better than October, because of Black Friday, which will be slightly before than the previous one that was in November 29th. This year, November will be very good, because there is a positive expectation regarding Black Friday.

Many clients of ours are already waiting for it. We already see moves on the part of retailers talking about Black Friday, so this is an event that is becoming the major event in Brazil and I believe that the volume of sales for Black Friday will be even higher than at Christmas Eve, which has always been the biggest selling day of the year in Brazil.

I am not being bullish in the sense that we are going to be better than last year; this is not what I am saying. I am saying that we are making a big endeavor, we are doing our share. And Abílio, yesterday, was saying that we should look in the mirror and say “What can we do?”, and this is what we are doing at all levels of the organization.

We know that crisis come and go. One day, the consumer will start to perceive that there is a lot of noise, so to say, in the market and that things are becoming better, and we will start having a better awareness. November will be much better, because of Black Friday.

We do not estimate a spectacular December, because we have the effect of Black Friday and there is a conservative expectation regarding December, but the 4Q will be the 4Q, that is to say, the best quarter in the year. We have no doubt whatsoever about that.

Net sales, for instance, if you look at the 9M14 compared to 9M15, of course this cannot continue, but it will gradually change and at some moment in time, nobody knows the timeframe for that, things will change and consumer confidence will return.

We are still at an all-time low in terms of consumer confidence. Those who still hold their jobs, they see their friends unemployed, losing their jobs, so people are very careful and prudent. We see no good news whatsoever; we only see bad news in the media.

Now, we have gone through similar situations, I do not know how many times already, and here at the Company, we believe that we will be exiting this crisis in a much better situation than we entered it, because we will have a learning curve and we will be learning quite a lot in terms of our relationship with suppliers, operating expenses, suppliers vis-à-vis inventory.

I have never seen anybody doing this kind of hard work in the good times. You only think about selling and selling. As you can see, in our yearly comparisons, our people continue to believe that if you go to a Magazine Luiza store and you talk with the manager or sales person, you will see that they are very positive.

I am not saying that they are excessively optimistic; this is not what I mean. What I mean is that we have a positive agenda that we must have in retail, because you can imagine it is a whole army of 20,000 saying “We have lost this battle”. No, this is not a situation or a kind of thinking that we accept.

So our 4Q will be better than the 3Q. Because of all the efforts that we have made and because of Black Friday, the 4Q will be better than the 3Q and better than the 2Q.

Tobias Stingelin:

Could you quantify this, Marcelo? Nobody knows when things will stabilize or recover, but could you say 21%? If this is the average for the Company? How about every month? Could you quantify for October, for instance?

Marcelo Silva:

I cannot talk about October. I cannot talk about November or December. The only thing I can tell you is that October was better than September and that November will be better than October. This is all I can say, OK?

Tobias Stingelin:

For next year, there will be a cost inflation. What about negotiations for 2016? Will this be done in January or February? I know you do not want to transfer that, but if you talk about technology, you are talking about USD. How do you see that? Everybody trying to sell what we can, but do you have any indication of any negotiations for next year? Because this will be one additional difficulty on top of all the others for next year.

Fabrício Bittar:

Regarding negotiations, we had a very tough year due to the USD variation. Over the year, we transferred this as well as all the other suppliers, all these increases, and for the end of the year, nothing will change, because we have already negotiated it from September to the end of this year, and for next year we do not estimate anything, because our suppliers know they are selling less. You cannot afford to increase prices.

I believe it will be stable, but it will depend on the exchange rate, of course, because no one can predict that. If there is any negotiation, it will be for the 2H15.

Tobias Stingelin:

Your last negotiation?

Fabrício Bittar:

Over the year, we had negotiations with suppliers individually, so this is a positive factor. Over the year, we had some isolated negotiations quarter-on-quarter and we ended up paying less than the USD appreciation; this is very important.

Tobias Stingelin:

I know it is difficult for you to answer, but over this year, do you have anything adjusted with the USD over R$3, or are you still working with your suppliers below R$3?

Fabrício Bittar:

It is already between R$3 and R$3.50.

Tobias Stingelin:

OK, thank you very much.

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:

I think I have already made the closing remarks when I talked about how we see the current situation and how Magazine Luiza and all the management of Magazine Luiza sees that we are working very hard.

This a tough year indeed, but we are present in 16 states, we are a retail Company, 30 million or 40 million people go to our stores every single year and we know that this country has 204 million or 205 million inhabitants, so the market does exist. All we need is to see a recovery of consumer confidence, and then things will go back to normal.

We at Magazine Luiza are prepared to face these difficult days, and also the good days that will come in the near future.

I would like to thank you all for your attention and see you during our next call. Thank you.

Operator:

Thank you very much. Magazine Luiza's 3Q15 earnings conference call is closed. You may disconnect your lines now. Have a very good day.