Operator:

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After the presentation, we will initiate the Q&A session when further instructions will be provided. In case you need any assistance during this call, please talk to the operator by pressing *0. The replay of this event will be available after it is concluded for a period of one week.

We would like to stress that any statement made during this call related to the business outlook of Magazine Luiza, projections, financial and operating goals are based on beliefs and assumptions from the management of the Company, as well as information currently available in the market. Future considerations are no guarantee of performance because they involve risks, uncertainties and assumptions and therefore depend on circumstances that may or may not occur. Investors must understand that general economic conditions, conditions of the industry and other operating factors may have affect the future performance of Magazine Luiza and may lead to results that differ completely from those expressed in such future considerations.

To start this conference call, I would like to give the floor to Mr. Marcelo Silva, the CEO for his presentation. Mr. Silva, you may proceed.

Marcelo Silva:

Good morning, everyone, and thank you very much for participating in our conference call on the results for the 3Q14.

I would like to begin by talking about the net income of the Company, which reached a growth of 66% to R$42 million in the 3Q. And this comes from two major factors, the first was the growth of our revenue by 18% in the 3Q and I would also like to highlight the growth of same-store sales, which had an increase of 15.5%, this is above the average, when compared to the market.

E-commerce has had a more impacting share, we had an increase of 32% in e-commerce and physical stores posted an increase of 12.4%, therefore, we have experienced a double-digit growth, if you look at the last quarters of the Company.
With 18% growth in revenues expenses, it did not grow as much, 13%, and this allowed us to have a dilution of 100 b.p. in the 3Q, and this is what has been posted in the past quarters due to a very good effort on the part of our people in reducing operating expenses.

Our EBITDA grew 44%, reaching R$176 million, and therefore we had an EBITDA margin of 7.4%. it is also important to mention LuizaCred equity income, which was LuizaCred's best result ever, in the 3Q, R$24 million of equity income for Magazine, and ROE of 37%.

We must also mention that after the integration of the two store chains that we acquired in 2010 in the Northeast and 2011, when we acquired Baú, we managed to make the integration and it is already in its maturity phase. The profitability of these chains is very close to the overall margins of the entire Company. So, we hope that by the end of 2015, all of the stores will be fully mature.

It is also worth mentioning the growth of our e-commerce, stemming from a policy of multi-channels where now we have, we are one single Company, we share the same processes, the same distribution centers, all of the distribution centers of the Company are operating online and offline through all of the multi-channels.

Therefore, I must say that we were very fortunate in all of our promotional campaigns this year with a World Cup, and contrary to what people believe that after the World Cup or during it, we would have a negative impact, but for us, we had a very successful phase. We also had other promotions to our customers.

Therefore, I must say that there was just a combination of factors that led us to have a very positive 3Q, a very successful 3Q, but what makes us more confident is the consistence of these results, because they have been consistently in increasing.

Before I give the floor to our CFO, Roberto Bellissimo, I would like to tell you all that here with us we have all of the officers of the Company, and also our president, Luiza Helena, who will also be available later on to take questions from you, if you want to address questions to her.

Now, I would like to ask Roberto to start with a very short presentation of the main highlights of the Company.

Roberto Bellissimo:

Good afternoon everyone. On page three of the presentation, I show you the sales performance. In the 3Q our gross revenue was about R$2.8 billion, and it grew 16% vis-à-vis last year, and it also increased vis-à-vis the 2Q. we did not have the hangover effect caused by the World Cup, because we continued to grow.

Down below you can also see the growth of last year, the comparison base was high, but we grew 15.5%. When it comes to same-store sales growth over a base of 17%, which was already very high. Also, our growth revenue for internet sales was R$500 million on the 3Q, and accumulated in the year, we posted a growth of almost 40%, which, again, accounts for 17% of our sales.

Moving on to page four, I would also like to highlight our gross profit growth, 18.7%, which was above the revenue and we increased our gross margin with a better sales mix when compared to the 2Q, with less TVs and more smartphones.

We also show the dilution of operating expenses, and this was certainly a highlight and had a great impact on our results. We grew expenses 13%, which was much below the expense level, in SG&A as well.

Equity income increased also and accounts for 1% of our net revenues, especially due to our good results for LuizaCred occurred. And this is also posted high profitable margins for the past two consecutive years with delinquency levels very low.

Next page, on page five, we show EBITDA, the EBITDA performance. We have 7.4% during the quarter and accumulated 6.1% over net revenue. We also see an increased performance from last year to this year from 6.1% to 7.4% due to expense reductions and also due to the results of our investments in the DCC or direct credit to consumer.

Now, next page, page six, I will show you our financial results. Financial expenses went from R$58 million to R$89 million, the main increase is related to credit card discounts, which increased mainly due to increases in sales, because sales increased significantly, also increase in credit cards sales, with a slight change in the mix and also due to CDI, which also in increased 30% vis-à-vis the same period of last year.

We continue to reduce our net debt, this half year we reduced our net debt and this reduced our leverage, both if you compare it to June or also September of last year. Part of that is due to improvements in our working capital in this half of the year. We had improvements in inventory turns and also the average purchase, in terms or payment terms because, as I said before, we had the effect of the World Cup.

Next page, page seven, I show you net income. Now we are R$89 million in this quarter, we had our highest return on equity, about 23%.

And on page eight, I have a few figures for the LuizaCred and the LuizaCred revenue continues to grow specially in regard, especially in regards to credit, which is a very healthy position. There was an increase of 18%, and are also experiencing a reduction in loans and DCC, direct credit to consumer, because we tried to be more conservative, and this had an impact in delinquency levels, payments or overdue payments, which indicates some improvements because of the most recent rates, and that is why LuizaCred's results were much better.

If you compare this half year with the same period of last year, the level of provisions decreased and we were able to maintain the growth of revenue and also the dilution and reduction in operating expenses.

Now, I will give the floor back to Marcelo to talk about the outlook.

Marcelo Silva:

The outlook for the end of the year is that we still anticipate sales growth in double-digit terms, and same-store sales, and this is due to better productivity at Baú and Maia, and the Northeast. The Northeast is growing more than the other regions of the country, and e-commerce also grew more than 25% in fiscal year 2014.

We think that this year our Black Friday event will be very aggressive and it has been growing year on year, and I think it will be no different this year. With a growth of the Northeast stores, we are gradually increasing our gross margins. We were also able to improve the management of our inventory and pricing projects are on the way, as we have talked about before, and a better sales mix now it is better than in previous quarters.

So, with all of that we hope to increase the profitability of the Company. We are about to inaugurate 20 new stores in October. We already inaugurated stores in Fortaleza, in São Paulo, and we hope to have 23 new stores in this last quarter of the year. We are very confident, and the industry as a whole, particularly our Company, we are all very confident in the Company.

Next week we will sit with all of our managers to talk about the next initiative for the end of the year. We will meet our target and we have been reaching the targets along the years. We have been meeting all the targets even though Brazil has low GDP growth, but we were able to grow approximately 15% on an annual basis, and we will continue to work to experience a double-digit growth. But this is the focus and the target that refers to 24,000 our employees in the Company.

So, we believe that 2014 will be one of the best years in the history of the company, both in terms of growth sales and also EBITDA margins and net income of the company.

And now, I would like to conclude the presentation. I will leave the floor open to take the questions from you. Thank you very much.

Ricardo Boiati, Banco Bradesco:

Good afternoon, everyone. My question relates to expenses, I just want to understand, whether this expense dilution, which you posted in your 3Q is totally related to very strong top line growth or whether there was something one-off, there was one-off or something very specific that contributed to the improvement of that line both in a commercial expenses and sales expenses and G&A expenses.

My second question is about e-commerce, we have seen you have very strong growth rates for e-commerce and it is gaining momentum in the overall results of the Company. Do you have any particular outlook for that division in the company or whether you think in terms of opening up the results from e-commerce giving the significance that this business is gaining in the overall results of the company?

Roberto Bellissimo:

Good afternoon Ricardo, and thank you for your question. I will initiate my answer with the expense part of your question. In fact, this dilution is a consequence of two things: we have sales growth which is very important and this has helped us to reduce expenses, but also, we must consider our enormous efforts to maintain expenses on a fixed base and also variable expenses at the lowest possible level.

The difference between sales expenses was very large, which indicates the fixed expenses did not grow as much this quarter. This also includes investments in marketing and we started investing in marketing since early this year and we have maintained this investment, and this has helped us grow in terms of sales and to grow the brand.

But we are also working with other expenses, such as logistics with the integration of all DCs and web sales that are also being delivered by all of our DCs and also fixed expenses from the stores and so these corporate expenses, like expenses from our main office, are being reduced.

Therefore, what I am saying is that, we have been diluted all expenses across the board and did also, we are trying to contain expenses as much as possible. Now, I will give the floor to Frederico, so he can talk a bit more about e-Commerce.

Frederico Trajano:

Good afternoon, Ricardo, and thank you for your questions. In fact, in the last quarters and even throughout the last few years, we have been consistently experience a very solid growth of our e-commerce, e-commerce activity, we have the very distinctive operation model.

We work with top players in the market and peer players, we have been growing both market growth, consistently quarter-on-quarter, year-on-year in the last six years, it was 35%, this year we grew 39% on e-commerce.

So e-commerce is gaining momentum, it is becoming more relevant in the company, and I think the beauty of our model is that, even though we are becoming more relevant, the Company as a whole increases its EBITDA and net income margins, and that provides the major differential.

Our model is so good in the top line of e-commerce and it is also good in terms of the contribution it gives to the overall margins of the Company. In fact, this is something that only Magazine Luiza has been able to deliver.

Now, in terms of giving further opening of the figures of e-commerce, this is a decision that can only be made at a board level. Today, some things are being discussed at the board, but nothing has been decided yet in terms of e-commerce.

Ricardo Boiati:

OK, thank you very much.

Marcelo Silva:

I would say that the relevance of the e-commerce as a growth should ultimately coming to tha, but this is not yet the time — it is not yet the time to open it up the way you were referring to.

Ricardo Boiati:

Ok, Marcelo. I know this would be really helpful, from Fred's comment, we know that operation is very profitable and it helps the Company as a whole. And I think, this is the information that I was looking for now.

Guilherme Assis, Brasil Plural:

Good afternoon, everyone, and thank you for accommodating my question. I just want to understand, especially along the lines of Marcelo's final remarks. He talked about some projects to improve inventory turn in pricing. I just want to learn more about what the project entitles and what we could expect from the projects and when we could expect the projects to impact your operations.

And my second question relates to the dilution of marketing expenses, I understand that the Company is doing a lot of effort in that marketing arena. You did that for the World Cup and for next year, I know that you will close up that package with Globo television, but we have not seen any changes, any significant changes in that line.

How much of that is impacted by vendors and what should we expect from now on, in terms of marketing? Thank you.

Marcelo Silva:

The first question about inventory management in pricing, I would like to ask Fabrício to answer that part, but it is just a process, a process involving systems improving, and improvements in the process per se. This has been happening in our commercial area, but Fabrício can give you more details on that. The second question will be answered by Frederico.

Fabrício Bittar Garcia:

Good afternoon, Guilherme, and thanks for your question. In fact, the inventory and pricing projects, we mentioned since last year, and we have been doing that with full support of MacKinsey and it has been fully deployed by the Company. The purpose is to grow, to evolve in our inventory management to have a healthy inventory.

Since the beginning of this year, we have experienced improvement in our inventory, we are able to reach 4 days of inventory time. The project has been deployed and it is growing quarter-on-quarter. There is a committee that manages just inventory.

In the case of pricing, it was just introduced this year, and it was introduced to a few categories. Our goal here is to capture some gains, because considering the size of the Company and the magnitude of the operation, we try to work pricing per category and regional, to have better margins.

This is a project that has been already deployed, the follow-up project was initiated on the 1Q14, and now it is being deployed in all the other areas of the Company.

Frederico Trajano:

Good afternoon, Guilherme. Concerning your second question, we do not report marketing expenses separately, we report on sales and SG&A expenses. In fact, sales expenses are being diluted throughout the year, but it is important to understand that, as we said last year, when we signed the deal for the World Cup, that marketing package would be almost the same as last year, because sales increased, even though we invested more of it because of sales, the percentage is about the same.

But other expenses, like salaries of managers, support commissions, there are many other expenses that are part of our sales expenses. All of these expenses, because of sales growth, because of a very significant sales growth that we experienced in the 1H14, even after the World Cup in the 2Q, were diluted, and that is why sales expenses is diluted, not due to marketing, but because of the effect it had on sales and the consequent dilution of all of these factors.

About next year, in fact, because of the success we had this year with the World Cup package that was extremely profitable for the Company, and also because of all the impact we had on sales and more visibility, we then decided to take the advantage of being part of this package and have even greater packages than that of Globo, that gives 40% additional visibility than the World Cup package.

This other package is divided in two other periods, it is not just concentrated in three months or more, this other package is marginally better in terms of costs. So, it is a 12 months package rather than six months, like the World Cup. This will give us 40% additional visibility and will be marginally higher than that of the World Cup.

We believe that when it comes to marketing we will have another exceptional year in 2014, to beat the results we had with the World Cup.

Guilherme Assis:

Thank you for the answer. Could you give me a follow-up on the marketing expense? Part of that expense or investments you do, can you negotiate with vendors to announce some specific products from vendors?

Frederico Trajano:

This is a common practice in the market. Some additional budgets are put forth and in terms of marketing costs, our practice is now very different than that of the market, we do not report that, we do not say how much we give, but it is in our balance sheet. It is not something the market does not do, we just follow the standards that are applied in the market as a whole.

Guilherme Assis:

OK, thank you very much.

Andrea Teixeira, JPMorgan:

Good afternoon, everyone. Congratulations for your results and thank you very much for the opportunity to ask you these questions. Now is not the time to be concerned about that, but I would like to know what is happening with your more mature stores.

Daniela always shows a chart of future improvement coming from the stores in the Northeast and how long it will take for them to reach full maturity. How is the snapshot today of the most mature stores vis-à-vis your stores in the Northeast and whether that gap is already much shorter.

Roberto Bellissimo:

Andrea, good afternoon. Let me just say a few words about that. This evolution we had in the EBITDA margin, for instance, was present in all of our channels, in all the channels and all the regions. The most mature stores, the older stores, are also becoming more profitable and that is due to all the improvement that were put into place and have an impact on the gross margin, the more mature stores also have better margins because of pricing and expense reduction.

It is also rally important to us to also improve profitability in the older stores, and when it comes to newer stores, their numbers are progressively improving. Sales in the Northeast were very significant, and they have been significant throughout the year. The growth has been above average, there has been improvement in the gross margin, and also decreases in expenses were posted.

We still believe we still have a lot more room to grow, both in the Northeast and in terms of the old Baú stores. The old Baú stores do not have yet the same sales per square meter, when compared to the older stores.

We still have room to grow between 15% to 20% until it reaches the level that we believe it will be a more mature level for these stores. What I mean is that we still have room to grow in these regions, and by the same token we will continue to dilute expenses and increase the EBITDA margin of the new stores.

Andrea Teixeira:

Thank you, Roberto, and these stores today, how much do they account for the overall result?

Roberto Bellissimo:

We say that approximately 40% of our stores are not yet fully matured, and these are the stores that we open after the acquisition of Maia and all the others that followed too. So, approximately 40% of the stores; e-commerce is almost 20% of our total sales, and these stores are almost 40% of them.

In the Northeast, the stores, I would say, are almost as big as e-commerce in terms of sales, only in the Northeast alone, and we still have to consider the Baú sales and the other stores that were opened organically and are not yet fully matured.

Therefore, 40% of the stores would account for about 30% of sales of working order stores today, and the trend is that they will continue to grow above our average and, therefore, they will help us increase our margins.

Marcelo Silva:

I would just like to add that I believe that by the end of next year both chains will reach full maturity and then we have new stores, as Beto said, that were acquired in 2012, 2013 and 2014 that will reach maturity.

Street stores should be mature in three to four years, and when it comes to shopping malls, it takes about four years. Every year, the stores, three to four years ago, started that maturity process and they will fall into a routine, because the two chains had 250 stores, but I think that by next year we will reach a reasonable maturity level of all stores.

Andrea Teixeira:

Thank you, Marcelo. What Roberto was saying was that 40% of the 80% without e-commerce, right? If we multiply 40x80, that is about 30% of the total revenue coming from high-growth stores, just to make sure.

Roberto Bellissimo:

Yes, about 30% of the revenue from physical stores and they are 40% of the stores, and sales per m² is still low, they are not so representative in terms of the total result.

Andrea Teixeira:

Thank you very much.

Tiago Macruz, Itaú BBA:

Good morning everyone. I think 2014 was a very good year. Your top line growth came particularly from TV sets and smartphones, but what about next year? What product line do you think should lead growth? Can we just say that this replacement process, like the sales of smartphones, is about to be exhausted?

Fabrício Bittar Garcia:

Hi, Tiago. In fact, the sales of TV sets next year will be slightly lower than this year, because this year we had the World Cup, that is natural. We believe that some categories should have a good performance next year.

Smartphones will still grow, this is a trend still, it is a replacement market, telephony, and the consumers keep changing their phones for a better phone, so we do not believe that we will experience a drop in the sales of smartphones.

White line this year, that market was pressured by the sales of TVs, but it is already picking up in the 2H, therefore we think we should have a very good white line sale next year. The furniture line should also recover next year.

So, we think that next year we will have a good performance, in addition to tablets. It was good this year and it will continue to be good next year, in all of these categories, Magazine Luiza is very strong. We believe all of these items will replace the sales of TVs. Also, air conditioning, which is part of the white line products.

Tiago Macruz:

Thank you very much for the answer.

Irma Sgarz, Goldman Sachs:

Good afternoon, thank you for the question. My first question, I just want to make sure, because you said that you hope that by the end of the year Maia and Baú should be mature, at the end of this year or 2015?

Marcelo Silva:

2015.

Irma Sgarz:

Fine. My second question, we have seen that LuizaCred results were very robust for many reasons and many factors, but what called my attention was that provisions continue to go down. You had a decrease in provisions for loan losses in LuizaCred.

There was a drop 20% year-on-year, your portfolio continues to grow, I understand that this is probably due to the fact that you are very comfortable with the quality of your portfolio and even the write-offs were lower, as we could tell from your results.

I would just like to understand how much longer this dynamic will prevail. Year-on-year these numbers should be going down whereas the portfolio is growing.

Marcelo Ferreira:

Let me say one thing: the provision for loan losses, in the 3Q13, it was 13.2% of the entire portfolio, but in the 3Q14, it is 13.3%. So, provision for loan losses, I mean, the balance is not coming down. Any losses will be posted under provision for loan losses, but potential losses in the portfolio means the value of PLL is very much adequate to the portfolio that is in the balance sheet.

But what is coming down? What is coming down are all of the PLL expenses, and why are they coming down? Because our credit portfolio is better, so we do not need all that provision for loan losses for the risk associated with the balance sheet. So, it is coming down because of the reasons you mentioned.

Things are better now, even because now our credit granting is better, we are being more conservative. So, all of those things put together mean less risk to the balance sheet.

Irma Sgarz:

How much longer do you think this will continue? I know that expenses with PLL are coming down, coverage ratio is also very stable, but if I look at the delinquency levels, the overdue payments between 15 to 90 days, essentially this was up by 30 b.p..

And I know that the market is very cautious, income levels are not growing as much as they were earlier during the year, so there is a certain level of caution in that consumer credit. So how do you manage or how do you see that the allowance for loan losses portfolio performing next year?

Marcelo Ferreira:

In our credit operation, every week, we look at the delinquency indicators, the delinquency KPIs are very stable. We look overdue above 15-90. There is a downward trend, you look at the overdue 15-90 days, and you see that there has been a decline.

If you look at the numbers, that overdue 15 to 90 days was down and this is a very positive indicator showing that,, because from 15 to 90, I mean, the lower overdue will be in the future. So, we do not need a lot of provision from losses.

But, in addition, we are very positive, because we are now controlling the new credit lines. We are very conservative in terms of granting new credit, granting new loans. And this is a way to protect yourself from future occurrences in the market as a whole.

Irma Sgarz:

Thank you.

Renata Coutinho, Citibank:

Good afternoon, and thank you for accommodating my questions. I have one question now about the conservative position in terms of credit granting. I have seen an impact on sales vis-à-vis the 1H14. Do you see any reflection on the sales of merchandises, maybe this conservative position should probably a fracture figures in the future?

Marcelo Silva:

This conservative approach, it has been around since 2011, and it was just increasing year-on-year. So, we do not believe that this was the limiting factor in terms of our sales, because despite that we have been growing double-digit above the market average.

Macroeconomically speaking, only problems related to unemployment would lead people not to pay if they were granted loans, this is because they deserved that. We do not see the possibility, macroeconomically speaking, of any major problems caused by unemployment. That is why all of the outlook or the provisions that we do both in Itaú and LuizaCred, which follow the same criteria I do not think there will be any changes or whether there would be any impact on our sales because of that.

Renata Coutinho:

You are not losing new clients that could apply for LuizaCred?

Marcelo Silva:

In the first purchase, we are very rigorous. That is when we may encounter problems that those that are already with us, we already know how they perform, but for new clients, we are more conservative. But this has not affected our sales.

Renata Coutinho:

Thank you.

Roberto Bellissimo:

Renata, let me just say one thing. We have more active clients in our LuizaCred portfolio, that is why our credit card line is growing, that is also important to mention that growth of the active customer base is very important and this has helped also to grow our credit card portfolio as a whole, the active basis growing. And we were able to grow in this quarter, we already had a conservative approach and we were able to grow this quarter as well.

Renata Coutinho:

Ok, thank you. Congratulations.

Guilherme Assis, Brasil Plural:

Just a follow-up question. When you talk about margins and opening up stores, we have seen that you expedited your store opening in the 3Q and then, I think in the 4Q, you would enforce that even further, should we expect any impact coming from the opening of the stores in your margins? And whether there was also an impact on the 3Q, after you deliver like 20 stores during the quarter? And how will be those dynamics and what should we expect for the next quarter?

Marcelo Silva:

We should not see any impact on the 4Q, because it is a very short period of time and there is not enough time to experience that impact. In the 2H14, and even in the 1H with the World Cup, we were concerned whether there would be a problem during the World Cup, but that did not happen. Pre-operating expenses are very minimal, even for accounting reasons, we appropriate almost everything in our CAPEX.

Therefore, this will not impact our results or sales. Many stores will be inaugurated in November, particularly in the Northeast. Therefore, I must say that this will not impact the company as a whole, the overall results.

Roberto Bellissimo:

We have not been doing EBITDA adjustments because these are almost irrelevant expenses. In this quarter that was R$1.6 million of expenses, like rent and things like that, before the inauguration of the store, but it is not that significant.

Guilherme Assis:

With this level of expenditure, should we expect that to be slightly higher in the 4Q?

Roberto Bellissimo:

You were talking about pre-operational?

Guilherme Assis:

Yes.

Roberto Bellissimo:

I believe that in November, all the stores will be inaugurated and then this time, we will go to operating expenses. But considering the whole picture, this will be almost irrelevant expenses.

Guilherme Assis:

Fine. Thank you very much.

Operator:

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

Marcelo Silva:

Thank you all very much for joining us during this conference call. I would just like to reinstate that we are very confident with the last quarter and we are getting ready for 2015 as well.

We will have several events coming very soon, like Black Friday and the Christmas campaign, all of these are very good opportunities for us at Magazine Luiza. And we will then have our *Liquidação Fantástica* in January. We will have a very robust result, much better than that of last year. Last year, we had good results, but this year, we will post even better results.

All in all, we are doing what we said we would do, and the Company is prepared from now on to present increasing results, gradual increases and very consistent growth. So, let us wait until we go through 4Q and we will see how the year ended, but we are very confident that you will all be very pleased, both the Company and investors.

Thank you, and I hope to see you again.

Operator:

Thank you very much. Magazine Luiza's conference call on the 3Q14 is now concluded. You can now disconnect. Thank you very much and have a nice afternoon.