

**Operator:**

Good morning and thank you for waiting. Welcome to Magazine Luiza's conference call to discuss the results of the 4Q12. 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 start the question and answer session, when further instructions will be given. Should you need assistance during the call, please press \*0 to reach the operator. The replay of this event will be available soon after it closes, for a week.

We would like to inform you that forward-looking statements that might be made during the call, related to the business perspectives of Magazine Luiza, 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 results 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. Marcelo Silva, you may begin.

**Marcelo Silva:**

Good morning, everyone. I would like to start our conference call by thanking you all for being with us today. First of all, I would like to go back in time, 2010, when we concluded the strategic planning of Magazine Luiza for the next five years, from 2010 to 2015. At the time, we defined that it was fundamental for us to consolidate our participation in the markets where we already operated, in the South, in the Southeast, and the Midwest. This consolidation also included the metropolitan region of São Paulo, where we opened 15 new stores. Therefore, we needed to consolidate the most important consumer region in Brazil.

We also defined that we had the opportunity to migrate to other markets as well in regions such as the North and the Northeast, and this is the region that has delivered the highest growth rate in Brazil in the last few years. In 2010 we had the opportunity to get into the Northeast by means of the acquisition of Lojas Maia. It was a unique participation of 150 stores in nine states of the region. We defined that we should also do our IPO, and this is what we did in May 2011. On the same year we had the opportunity to acquire the Baú stores, which further helped us consolidate our position in the South, mainly in Paraná State and also in the metropolitan region of São Paulo.

In 2012, we established as the main focus of the Company the conclusion of the two chains integration. As of March, all the Baú stores were 100% integrated, and in October we finalized the integration of Lojas Maia. Besides the integration of the two chains, we also reached our sales target and we were able to reach R\$9 billion in consolidated net sales, a 19% growth year on year, 12.5% same-store sales.

We said that we also started a rationalization of expenses project and we considered that this process was very successful, because we were able to reduce our operating cost in the 4Q and for the full year of 2012.

Nevertheless, the gross margin, EBITDA margin, and as a consequence the net income were impacted by a slower than desired sales pace. Promotions such as Black Friday in November and aftersales and Christmas and after Christmas pulled the gross margin down, and in spite of that we delivered a positive result. And today, in 2013, we are establishing a new path to further improve our financial indicators in the medium run, and we are more focused on governance and financial prudence, and in the prioritization of our margin and we will be growing more moderately, and work toward our financial performance in delivering consistent results over the next few quarters. And at the end we will go back to that.

Now, I would like to give the floor to our CFO, Roberto Rodrigues, who will talk about our financial highlights for the Company.

**Roberto Rodrigues:**

Good morning, everyone. And thank you for participating in our call for the 4Q12 results. I would like to mention on page six the expansion of the Company, and last year our focus was organic growth. In the 4Q we opened nine stores and we closed two stores for overlapping reasons, and we closed the year with 743 stores in 16 states of Brazil, and in the year as a whole we opened 22 new stores, 12 in the Northeast and ten in the South, Southeast, and Midwest. And we closed seven stores. Overall, we opened 15 stores net and I would like to mention that 38% or almost 40% of our stores are less than three years old and they are in the natural maturing process that takes around three years, and they should be driving our organic growth this year and the next year as well as a whole.

In January, in our focus of increasing productivity and profitability of our stores, we decided to close 14 stores that... and we should be opening an additional 20 to 25 new stores, thereby expanding our chain in this area as a whole.

On the next slide, on page number seven, we show the evolution of the financed sales mix, a mix that focused much more on profitability and sustainability last year, and we have the challenge of continuing to grow our sales higher than the market, with a more conservative credit approval rate, mainly in Cartão Luiza, and reduce the participation of Cartão Luiza, the Luiza Card, to 17% of our sales, from 31% to 17%, and we offset this with the increase of our direct consumer loans, which is more profitable, and I will be showing this in the results of Luiza Cred, increasing from 13% to 19% our direct consumer loans, and also with debit card sales and third-party credit card use as well.

On the right, we show that the total sales of Luiza Cred, even with a more conservative approval rate, grew 12%, 13% of the total in the quarter, and in the year as a whole Luiza Cred showed over... had revenues of over R\$7 billion, highlighting the growth of direct consumer loans in the quarter over 80% growth. And the use outside Luiza also grew to 1.5 billion, from 1.2 billion to 1.5 billion, which shows that clients continue to use our card even outside Magazine Luiza stores.

And on the next slide, page number eight, we show the drop in the overall card base due to the more conservative stand in credit assignment, 4.4 million to 3.9 million in the end of 2012. Over 90% of this base is composed of active clients, which is very important for the result of Luiza Cred as well.

On the right, we show the growth of the Luiza Cred loan portfolio, from 3.3 billion to 3.6 billion, almost 10% growth in the portfolio overall, cards practically stable, and the consumer credit practically doubling, reaching almost R\$1 billion.

On the next page, number nine, we show how this was affected in terms of improvement in the quality indicators of the portfolio, in the last quarter more specifically. Over 90 days past due portfolio went down from 10.4% to 8.2% of the total portfolio, and in the year as a whole the drop was of over 400 b.p., a significant reduction both in the over 90 days past due and up to 90 days past due, both showed a very significant improvement. And with that, the overall past due portfolio today, over 90 days past due, represents less than R\$300 million, and Luiza Cred maintained a level of provisions on the balance sheet, R\$450 million, which gives us a coverage ratio which is over 130% the coverage ratio, which is a very comfortable level and much higher than one year ago, when it was 114%.

And with this, Luiza Cred over the quarter was able to improve its results with an excellent result at the end of the 4Q, and the level of provisions already starting to go down, proportionally lower, and with the change in the product mix the gross margin and also the direct consumer loans had a reduction of the CDI, brought about improvements in the gross margin, and with a reduction in the provisions the operating margin of Luiza Cred was higher than 11%, that is to say a two digit, a quite interesting profitability index.

On page number ten we show a history of the last ten years in terms of growth of retail as a whole. As you can see here, and our retail grew more than the average, 12.9%, although last year, on average, it grew more than retail as a whole, and Magazine Luiza is consistently growing higher than the average for the market and also higher than the average of our sector, almost 25% in the last ten years, as you can see on this slide.

On the next slide we start to talk about the financial indicators. On page 12, we show the growth of retail, then consolidated growth. As Marcelo said, we exceeded R\$9 billion for the first time ever in the history of the Company, and same-store sales was a highlight in the 4Q as well and at the end of last year. And in the year as a whole, 12.5% growth same-store sales, and in the 4Q 11.9% higher than the one delivered in the 3Q, although Christmas was weak, October and November had very good sales. And in the quarter as a whole we further accelerated this compared to the 3Q. Campaigns such as the Gold Client and Black Friday were big successes and further helping us increase our sales and thereby mitigating the situation of a weaker Christmas and a slower overall economic scenario.

On the next slide we show the growth of our e-commerce. Ever since its inception in the year 2000, it has been growing consistently, reaching in 2012 for the first time ever the level of over R\$1 billion, and this was really a historical moment and we celebrated it internally. In the 4Q e-commerce grew by 25%, in the year as a whole 33%. Magazine has always believed in the success of the multichannel operation and the growth of all the channels, e-commerce there included with all the channels being fully integrated and with a more efficient e-commerce. And our e-commerce is very profitable, and we have more

opportunities to increase sales and profitability through our e-commerce for the next few years.

We also believe that with our new multichannel delivery process, by means of our new distribution centers, we will be further improving our level of service and decrease the cost related to e-commerce, which is a main competitive advantage in our opinion, and this should further contribute to the profitability of our Internet operation. So, I would like to remind you that in 2012 we won a prize, we were awarded a very important prize regarding e-commerce.

On the next slide, EBIT at home appliance store and most beloved store in Brazil awards. Net revenue growing 14% in the 4Q, 19.4% for the year, reaching R\$7.7 billion. Gross margin 32.4%, lower than 34.7% in the previous year, mainly due to the campaigns Black Friday, and Christmas, as I said before, was weaker. But I would like to remind you that in the Northeast the gross margin started to improve in the 4Q. The difference between the gross margin, between South and Southeast and Midwest to this region decreased, and Northeast went up on a quarterly basis, and we believe that we have all the right conditions to have a further improvement in margins there until we can totally bridge this gap. And we have projects to preserve this for the chain as a whole, and I will be talking about this in detail in a few minutes, so that our focus is really on profitability and the evolution of our margins.

On the next slide we show our operating expenses. We can see that the total expenses grew R\$616 million in the 4Q to R\$630 million in the 4Q; year on year, R\$616 million to R\$630 million, a very small increase, 3.3 p.p. So, the growth in the net revenues was much higher than that, 19%, and selling expenses, you can see 3% administrative expenses due to the program that we carried out regarding the cut in our expenditures implemented last year, and that net of the extraordinary expenses, we saw a decrease of 0.7 p.p., and overall 3.3 p.p. reduction, which is quite high.

And I would like to remind you that this does not reflect fully the synergies of the integration of our chain and our new stores and the improvement that we expect both in provisions and Luiza Cred and the new commercial agreements that we have with Luiza Cred.

On the next slide we show other operating expenses and revenues. From R\$24 million to R\$12 million this year, net revenue, a reduction in other extraordinary expenses in line with our plan, extraordinary expenses started the year at a high level because of the integrations, and then they dropped to R\$3 million in the 2Q, then R\$6 million in the 3Q, and only R\$3 million in the 4Q, and coming to an end practically, according to the level that we had expected for the year as a whole, R\$38 million, and these are expenses that we will not have in 2013, once the integration has already come to an end.

On the next slide, on page 17, we have the evolution of our EBITDA. In the 4Q, EBITDA was R\$84 million, equivalent to 3.8% of our net revenues, and compared to last year we had a dilution of our expenses, a decrease in our expenses. But we can say that in the quarter as a whole, the EBITDA was affected by the gross margin. And this year we are working to increase our gross margins both in the Northeast and in the other channels as well, due to our pricing project that we are implementing in order to improve our pricing per region, per product, and this should bring about improvements for our bottom line as a whole, besides all the endeavors that we are making in the reduction of expenses this year, 2013.

On the next slide, financial expenses dropped from R\$40 million to R\$39 million, from 2.1% of net revenues to 1.8% of our net revenues due to the CDI and the lower need for working capital in the last quarter. In the last quarter, net debt dropped R\$137 million, from R\$715 million to R\$578 million in December, quarter over quarter, and I would like to mention that we closed 2012 with R\$658 million in our cash, 74% of our gross debt was long term, and reduction of the net debt/EBITDA ratio, which was 2.1x or 2.4x the EBITDA, and we also approved the issue of debentures amounting to R\$200 million in order to further roll out our debt profile roll over.

And I would like to mention that one of the reasons for the reduction was R\$281 million as ICMS to be recovered. This is a tax to be recovered, and R\$152 million in the short term that will be recovered during this year, and R\$124 million for long term. And we should be recovering this over a two to three year timeframe. So, according to the new tax system that we are implementing, by means of which we will not pay the ICMS with the discount when we buy the goods or the merchandise in order to pay it when we sell or when we transfer the goods or the merchandise. So, we will be able to realize this balance and place R\$280 million in the Company's cash over the next couple of years.

On the next slide, on page 19, we show you our net income for the quarter. In the beginning of the year we had expenses with integration of stores and very high provisions ahead, and we reverted this over the year and we closed the 4Q with R\$9.7 million in net income, Luiza Cred with a result that was much better than the remainder or the beginning of the year, and the Company being fully integrated and ready to face 2013 with a better position and retail.

And on page 20 we show the evolution of our investments. In the 4Q we were able to reduce our net debt and invest R\$52 million mainly in the remodeling of new, and the new stores ended the year as a whole, we invest R\$175 million. We remodeled 75 stores and we opened 22 new stores, and we also invested quite a lot in the improvement of our logistics.

Now I would like to give the floor back to Marcelo Silva, our CEO.

**Marcelo Silva:**

I would like to close the first part of our presentation, before we open for questions, making some final remarks. If we go back to 2008 we see that consolidated net revenues were R\$3.4 billion, 2010 R\$5.7 billion, 2011 R\$7.6 billion, and now R\$9.1 billion in 2012, and in 2013 we should reach two digits of billion for the first time ever, by means of a moderate organic growth, because we are making a more conservative estimate for 2013, in spite of the expectation for a better economic recovery in Brazil.

We believe 20, 25 new stores will be opened in the Northeast, the South, and the Southeast, and we will continue to benefit from the continuation of the maturation process of 1/3 of our stores, which should contribute to a further improvement in our sales in 2013 and 2014. And we believe that we are today in a very comfortable position.

The line has dropped, so the interpreter is waiting for the line to be recovered. Please, stand by while we wait for the Company to resume the presentation.

... cost rationalization, and we will be focusing more on the preservation of our gross and net margins in order to bridge the gap that exists today between the margins in the Northeast, in the South, and the Southeast, and we are implementing a new process for price control and that will contribute to preserve our margins.

We are introducing more strict cost control policy, implementing ZBB, zero base budget, which will help us mature our process of cost reduction for the Company. And there is an important fact, Roberto has already mentioned, that was the agreement that we signed for Luiza Cred in February 2013. This agreement aims at rationalizing costs, at improving margins for Luiza Cred, together with Itaú, and we feel much more comfortable now in terms of Luiza Cred for 2013 than before. And we are already achieving a significant improvement in the operating expenses of Luiza Cred, and this will further contribute to our results in 2013. There are other opportunities such as the reduction of logistics cost and the multichannel delivery that Roberto mentioned briefly.

And what I would like to say is that we have two very clear objectives in our strategy. First, to improve more and more our service to our clients, and, as a consequence, generating consistent positive results over the next quarters.

All the management of the Company is fully focused on the Company's profitability. More and more focused on profitability than on an aggressive growth in our sales, as I mentioned a while ago when I talked about the years that we have in existence.

Now, I would like to open for questions from our investors and analysts. We have all the members of our Executive Committee. We have Fabricio, from the commercial area, Fabricio from procurement, Marcelo Ferreira, Luiza Cred, Tatiana Pinni, our IRO. So we are all together here in order to answer any questions that you might have.

So, I would like to thank you very much for your attention, and let us open for questions.

**João Mamede, BTG Pactual:**

Good afternoon. In retail as a whole, how was the beginning of the year for you? Do you intend to be more aggressive than you were before or as you were at the end of the 4Q? This is the first point.

The second point has to do with the capture of synergies. I would like to better understand the dynamics of this evolution with the gradual process of capturing synergy during the 1Q. You captured part of that, and you reached the 4Q with 100% of synergies already being captured, and I would like to know what you intend to do now in the 1Q, the 2Q, the 3Q and also Luiza Cred. So, could you please explain the dynamics of this part of your business?

**Magazine Luiza:**

I can tell you that in the 1Q the market was quite slow. March was a little bit better already, and certainly we are already capturing the synergies that you have mentioned with the integration of our chains, the results of Luiza Cred are already better, such as in the 4Q, we will have the same in the 1Q13.

But as you mentioned yourself, this is gradual, starting in the 1Q, and we trust that we will be delivering a much better result in 2013 compared to 2012, due to everything that we mentioned, capture of synergy, better results for Luiza Cred, rationalization of our costs, the maintenance of our margins in a more consistent fashion.

Now our chains are fully integrated, they are all under the umbrella of Magazine Luiza system. So, for all the reasons that I mentioned, we believe that in 2013 we will be delivering much better results than 2012. And as you said yourself, growing gradually from the 1Q to the 2Q, then the 3Q and the 4Q, culminating in a better 4Q, with overall better results for the year.

**João Mamede:**

From the 4Q12 to the 1Q13, what about the reduction in credit approval?

**Magazine Luiza:**

Since 2011 credit approval comes from Itaú Unibanco, and we are more conservative with a reduction in our losses, and our provisions are better adjusted now, and Luiza Cred maintains the same conservative stand in 2013. That was the case in 2012 and 2011. So, more conservative policies are in place and will continue in place.

**João Mamede:**

Thank you.

**Ronaldo Kasinsky, Santander:**

Good afternoon, everyone. What about the competitive environment in e-commerce and brick-and-mortar stores? What about the performance now in the 1Q, more specifically e-commerce? And I have a question about your pricing policy. What is the direct impact of that on your margin? Can you have an idea of how much we will be gaining from this new policy? And when will you be reaping the results?

**Magazine Luiza:**

We started this in the 3Q and the 4Q of last year, and we are now implementing this in all the stores of the Company. This is the pricing control policy, and our pricing will be much more rational, much more focused, and today we have to consider the different regions where we operate and the different situations of competition in the South, in the Northeast. And the Northeast itself has different situations in the region, so it has to do with the pricing strategy, and our objective is to ensure better gross margins. So, this is a tool that we will be using very extensively in all our stores in our commercial operations. And this will certainly help us maintain our margins at the level that we have already defined as our target.

**Ronaldo Kasinsky:**

And what about competition in e-commerce?

**Magazine Luiza:**

I would like Federico to answer your question, because he is the one that is at the head of our e-commerce.

**Federico Trajano:**

Good morning. Answering your question about e-commerce, we do not see anything different this quarter from the other previous quarters regarding the competitive environment. Over the last year we achieved a very good growth, much higher than the market overall, taking advantage of our multichannel operations, and we share the costs with our brick-and-mortar chain, and because of that we can do a very good job in the environment where we operate today. So, 1Q no different vis-à-vis the previous quarter, and we want to continue to have our e-commerce growing at higher rates than the market, preserving its profitability.

And I would like to mention what Roberto said at the beginning of the presentation, our operation grows more than the market, it is very healthy and very profitable. It brings us a very good bottom line.

**Ronaldo Kasinsky:**

Thank you.

**Irma Sgarz, Goldman Sachs:**

Good afternoon, everyone. Could you please talk about the retail environment at the beginning of the year? There is a higher demand, I understand, and demand... This is my question: how do you see the retail environment overall?

**Federico Trajano:**

Good afternoon, Irma. Talking about the brick-and-mortar stores, of course the economic environment is more challenging as we had in the 4Q. Mainly by late December we had a more challenging situation.

And as Marcelo said during his presentation, our intention is to preserve our margins and not focus on a very accelerated growth of our sales. So, we intend to preserve our gross margin, and this is the proposal for the year as a whole by the Company, and we see no big differences or significant changes regarding demand products related to technology, such as smartphones and tablet, have a very good demand, it continues, and with a moderate growth for the white line. We had a reduction in the IPI, as you know, in the previous quarter, the IPI tax, but we continue to grow. We still see growth in this line, however it is lower than the previous year.

**André Cottio, Deutsche Bank:**

What about your contract with Galeazzi? I understand you have signed a contract with Galeazzi and maybe you could expand on that.



**Magazine Luiza:**

Galeazzi did some work for Itaú, and it was Itaú's suggestion to hire Galeazzi, so we asked them to continue working for us, rationalizing our costs in Luiza Cred, and this is exactly what they are doing now. The objective is to reduce costs and increase efficiency in all senses, including Luiza Cred. And as Luiza Cred has a workforce in our stores, the people of Luiza Cred work in our stores, Galeazzi is extending this work that he did for Itaú to Luiza Cred. And this is being done, and we understand we will be able to achieve further cost reductions at Luiza Cred due to that.

So, this was mentioned by somebody, somewhere, I understand, but this is an extension of what they did for Itaú, and so we asked them to continue to do this for Luiza Cred, with the same objective, which is cost reduction, efficiency increase. This is our focus this year, and Luiza Cred is a very important part of our operation overall, due to the synergies and efficiencies, etc. So, this is what Galeazzi is doing. Their work is still underway.

**Gabriel Amorim, Citibank:**

I would like to talk about results first. We see a decision, or we will be seeing a determination by CADE regarding that we will affect the repositioning of Rio de Janeiro stores, and Magazine Luiza is not there yet.

Last year, the Chairman of the Company said that you would be getting to Rio de Janeiro this year, and I would like to know if you have any news to impart to us, and if you see any advantage doing that, or if you are just postponing that.

**Magazine Luiza:**

No. We are not planning any acquisitions for 2013, and the Chairman of our Board said that one day we would be present in Rio de Janeiro. However, this is not going to happen in 2013, at least it is not on our radar screen at all.

**Gabriel Amorim:**

Thank you.

**Irma Sgarz, Goldman Sachs:**

Thank you. Once again, going back to my question about trends, do you see anything different in trends? Is demand stronger in the Northeast? Will it continue to be stronger in the Northeast?

And the second question, with the increase that is expected in the Selic rate, maybe for the next few months, what is the Company's policy regarding that? Are you going to transfer this increase to your clients? Right now it is pure theory, of course, but maybe you could explain what you intend to do.

**Magazine Luiza:**

Irma, regarding interest rates, we have to wait for the decision by the Central Bank regarding the increase in the Selic rate. And we are still not thinking about the possible increase in the Selic rate and the interest rate that will be charged after that. So, we have not done any calculations based on this possibility. We are just going to wait and see what happens in Brazil in the next few months so that we may have an idea of the situation, and then make a decision.

Regarding the trend in the different regions, it is more or less similar in the South, in the Southeast, in the Northeast. We continue to have... There is no big variation among the different regions. We cannot say that the South, and the Southeast, and the Northeast will be growing more or less. We believe that the growth in the Northeast is not as strong as it was in the past, because there is already an impact of the dry season, and it has an impact not only on the hinterland of these states, but also throughout the region.

So, the growth of the Northeast region is a little bit slower than it was before. It had the highest growth rate in Brazil and now it is slowing down gradually, but it is the same growth rate as in the South and the Southeast. There is no difference.

**Irma Sgarz:**

Thank you.

**Operator:**

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

**Marcelo Silva:**

I would like to thank you all for participating in our call. And we would like to reiterate that on behalf of the whole executive committee of the Company, everybody that is with us today, and all the managers of the Company, everybody is focused on the same objective. We are totally focused on more and more delivering better services to our clients and delivering better and better results.

We should be preserving our margins even more than before, and we are doing a very conservative budget, expecting a growth in the economy, and of course the results in 2013 will be much better than 2012. This is what we believe in, and this is our certainty for the year of 2013.

Thank you all very much.

**Operator:**

Thank you very much. Magazine Luiza's 4Q12 results conference call is closed. We would like to thank you very much for participating, and wish you all a very good afternoon. Thank you.

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