Operator:

Good afternoon and thank you for waiting. Welcome to Magazine Luiza's conference call to discuss the results of the 1Q14.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. Afterwards, we will have a question and answer session when further instructions will be given. Should you need assistance during the call, please press *0 to reach the operator.

The replay of this event will be available soon after it ends and will be available for a week.

We would like to inform you that forward-looking statements that might be made during this 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 performance of Magazine Luiza and may lead to results that differ materially from those expressed in such forward-looking statements.

In order to start our call, we would like to turn the floor over to Mr. Marcelo Silva, CEO, who will start the presentation. Mr. Marcelo Silva, you may begin.

Marcelo Silva:

Good morning, everyone. Thank you for joining us in this call, where we will be talking about the results of Magazine Luiza for the 1Q14.

It is a great pleasure for us to tell you that undoubtedly this is the best result ever for a 1Q for the Company. The 1Q has its own characteristics about sales, and January, February, and March, Carnival, and for our activity this is really non-typical. But this has been the best 1Q as far as we can remember.

And this performance starts with sales in the 1Q vis-à-vis the 1Q13 we grew 28,5% of which we stress same-store sales, 25.4% increase, 22.3% conventional stores, and ecommerce 44%. I believe that this has been the best growth in retail as a whole in Brazil for same-store sales.

And this was done by keeping our gross margins 1.9 p.p. growth in ecommerce, this has been happening gradually, and we had the best performance in the Northeast as well, when we can go back a little bit, also an increase in gross margin. We finished the integration in October 2012, 2013 we already started to reap the fruit from this integration last year, the 2H13 the Northeast has a much better performance and 2014 even better.

And we also had the participation of ecommerce with a strong performance in high margin category, such as smartphones and tablets, and this is a market that Magazine Luiza has been conquering.

And we also had a major reduction in our operating expenses, 2.2%. This is very significant because we went from 25% last year going down to 23% of operating expenses.

And I would also highlight the results of LuizaCred. LuizaCred has been growing its results quarter on quarter, and delinquency is under total control at LuizaCred, the best indices in the last two years, and also reducing operating expenses. And with that, our EBITDA margin goes from 8.7% last year to 17.8%, and as consequence the net margin of LuizaCred goes from 4.6% to 10.2%. Fantastic results by LuizaCred, with the outlook of maintaining net margin at these levels for LuizaCred.

And with that, our consolidated EBITDA went to R$120 million, growing 1.7 b.p. vis-à-vis the 1Q13, and this growth in EBITDA of 92% vis-à-vis a growth of 28.5% in our net sales, so you can see that it is significantly positive result that bring to you with great pleasure.

And net income, as consequence, went to R$20 million. And later during this call we will talk about the trend of the net income, the upward trend of this net income, growing gradually, as we have always been saying.

And this growth in our sales, I would like to stress our marketing actions, we have very strong media coverage, because we are sponsoring the World Cup at Rede Globo, and we made an outstanding promotion, an unprecedented promotion, which is called "The whole building for you". One of our clients has already won this draw and the media did a very wide coverage. And in the 2H14 we are announcing a new building, and the promotion had been very strong; over 30 million coupons issued already for the draw for the first building.

So, the moment that we are living, and the motivation by the whole team, and strong media coverage, and the care that we have in terms of maintaining our gross margin under control much better supply because of our inventory management efforts, and we have been advancing in this regard quarter-on-quarter, and our margin has been under control as well due to our price management model that we adopted, and those who follow us have already heard us remark about that.

And also a more vigorous tracking of our operating expenses, so with a very good growth in our sales, maintaining our gross margin and diluting our operating margins because of that. EBITDA and net income are a consequence of that, also financial expenses are impacted much more by external factors like the increase in the Selic rate and the CDI.

Having said that as my opening remarks, I would like to give the floor to our CFO, Roberto Bellissimo, who will be making a presentation about the performance of Magazine and LuizaCred.

Roberto Bellissimo:

Good morning, everyone. Let us go to page number four, where we show the evolution of our stores. Compared to one year ago, we inaugurated 13 stores and we show investments in the 1Q, R$16 million, growth in same-store stores, and the average age of our stores.

We still have almost 40% of our stores that are not mature yet. But they are becoming more and more mature, as you can see based on the results that we are presenting today. The evolution of the Northeast and the Baú stores, this is all very clear in the evolution of our earnings.

On the next page, page five, we have some indicators of LuizaCred. The portfolio of LuizaCred continues to grow, highlighting the credit card portfolio, which is more profitable than the others and with a better client profile as well. It reached almost R$3 billion.

And sales of LuizaCred continue to go up at 12% rate this quarter, on a quarter-on-quarter comparison, highlighting the billings on the cards. This means that our clients are using the card more and more inside and outside our stores. CDC has been growing and personal loans going down, and CDC as a consequence of our conservative policy of credit assignment by LuizaCred.

On the next page, page six, we have the evolution of our delinquency rate. Delinquency is a highlight in our results because delinquency is under total control, and the long-term indicators show a downward trend in delinquency, 10.3%. NPL higher than 90 days, lower than December, lower than September. So, there is a downward trend that we see here as a consequence of the conservative credit assignment policy that we have implemented for quite some time already.

And because of that, provision for loan losses were lower on an annualized basis, around 14% compared to the annualized base of 17% one year ago.

So, we have been reducing delinquency and the provision for delinquency, thanks to the improvement in our portfolio. And the short-term delinquency is more seasonal though in the 1Q, it tends to go up slightly. However, the indicators continue under total control on our part and the approval rates continue to be very conservative.

On the next slide, page seven, we have the growth of our gross revenue, 26.6% this quarter. Internet 44% growth, and gross profit 24% up. There was the maintenance of our gross margin with accelerated growth at the same time.

Page eight, here we have the breakdown of our operating expenses. We were able to dilute our operating expenses in practically all lines and growing our revenues at the same time, and the growth in our expenses was much lower than the growth in our revenues, and because of that we obtained a dilution of expenses of 1.7 b.p. Adjusted for the INSS accounting effect and non-recurring results, it did not happen this quarter because all the results that we are showing today are totally recurrent and consistent.

On page nine, we show our equity income coming mainly from LuizaCred, 1% on net revenue. LuizaCred, as we said before, had a return of 36% on return on equity, and for one year and a half, LuizaCred has been delivering very consistent results and it is the sixth quarter ever since 2012 and all the quarters of 2013 and the 1Q14.

And growth in sales and maintenance of our margin and dilution of expenses because of all that, the EBITDA practically doubled from R$63 million to R$121 million. And I would like to highlight the maturation of the new stores contributing to this result.

On page ten, the effect of each one of the lines in the EBITDA evolution, as you can see here, and the highlight for the dilution of expenses, both selling expenses and administrative expenses, and also equity income.

On page 11, we show the financial results. Net financial expenses grew to 53%, very close to the growth of the CDI, due to the increase of the CDI rate during the period that went up from 7% to 10.5%, practically. And it reflects the lower indebtedness of the Company. Compared to one year ago, we were able to reduce our indebtedness and reduce our leverage, even more our leverage and the growth of EBITDA.

But the cost is higher because of cards, but we were able to grow our financial results nevertheless and maintain growth similar to the increase of the CDI rate. And in the working capital line, we reduced our net working capital from 3.4% one year ago to 2.3% this quarter, compared to December. Of course there is an increase because of the seasonality of the period. However, vis-à-vis one year ago, we are more efficient in working capital use, thanks to the maintenance of the inventory terms, inventory turnover, and our purchases, keeping a more healthy balance and our suppliers lying higher than our inventory.

Now, the evolution of our net income in a very consistent fashion quarter-on-quarter since the beginning of 2013, reaching R$20 million, almost 1% this quarter.

And now I would like to give the floor back to Marcelo Silva and he will be talking about the outlook for 2014.

Marcelo Silva:

We maintain our trust in the sales performance of the Company in the 2Q. We will have a very strong effect of the World Cup and greater marketing efforts. And you saw yesterday on TV, the media coverage of the eight sponsors, and the focus was mostly on Magazine Luiza. We were the only retail company shown and we expect better productivity at the integrated chains, the Baú and Maia stores in the Northeast, and we should be keeping our gross margin at an adequate level.

And we will continue to conquer new gains and diluting operating expenses due to the growth in our sales. And the austerity program regarding expenses in the Company, LuizaCred, as Beto said, does not expect any problem regarding delinquency or cost increase in the long run.

And we continue to work on our operating efficiency by reducing cost as much as we can, as well as the Magazine. And we expect to achieve a result much higher than 2013, that already was very good without non-recurrent effect. And we had in June last year, and we trust we should be delivering margin and consistent results as we have been saying and repeating, consistent and gradual and positive results.

Having said that, I would like to place all of us available to you to answer questions that you might have. Frederico, Fabrício, Beto, Isabel, Marcelo Ferreira, from LuizaCred, we are all here in this room and we will be available to answer your questions and clarify your doubts about the results of the 1Q14.

Fabio Monteiro, BTG Pactual:

Good morning, everyone. About the growth in sales, could you give us some idea about the growth pace in smartphones and tablets and how much they represent in our overall sales? And help us, I think for the next few months, you talked about two-digit growth for 2014 in conventional stores, but I would like to understand how you see in the 2Q and the 3Q, on one hand the benefit from smartphone and tablet sales, and also the benefits coming from the increase in productivity and the ramp up of Baú and Maia stores in the Northeast.

There is this plus on one hand, and on the other hand during the World Cup there will be many holidays, so stores and malls will be closed, probably. So how do you suggest we think about sales for the 2Q14 and the 3Q14?

Marcelo Silva:

For the 2Q, well, we already have April and of course the figures have not been published yet. May is starting well and we expect to continue this in the IT area, smartphones, tablets, cellular phones, and even TV sets. We have been achieving very significant sales levels, and regardless of the World cup, you are talking about the 2Q and the 3Q. After the World Cup, we will go back to normal, there is a specific seasonality now in place because of the World Cup, mainly TV sets and all the IT equipment, other IT items.

So, the 2Q should have a very strong growth in these items. We should be achieving a very significant growth. And in this 3Q, we believe we will go back to normal levels. And I would like to remind you that the 1H14 will be compared to the 1H13, of course, maintaining the same performance as the 2H13. So, the comparability of the 2H14 will be much better than the 1H13. And the second one, well, the second will be more difficult to compare. You must remember that last year the 3Q13 was very strong and the 4Q13 as well.

However, we expect to reach the end of the year with two-digit growth in our conventional stores and very robust growth in e-commerce as well, continue to grow as we have been growing quarter-on-quarter in our e-commerce.

We understand that this media that is called Medianet that covers the whole Country for Rede Globo also favors our e-commerce, because municipalities in which Magazine does not have conventional stores, we are there by means of the World Cup advertising and coverage. So, we placed our bets there and we have been very successful in this regard. This is the reality for the World Cup.

Fabio Monteiro:

I have another question, Marcelo. For five quarters, you have had a gradual evolution in your margins, and of course some of your stores are not mature yet, and growth in sales is very good. In three or four years, for instance, what do you believe could be the EBITDA margin level?

Marcelo Silva:

Of course, we have to reach the point that we showed in our IPO. You have the figure, I believe you have the figure in mind. And at some point in time in these three years that you mentioned, you remember that in 2010 we already had 7% EBITDA and with the maturation of our stores we will get to this level that we placed for the future. When you say three year's time, this is the level or this is the horizon that we believe is achievable for our activity.

We do not have Maia and Baú yet and we did not have Maia and Baú at the time in 2010, and we got to 7% EBITDA. And as we still have about 40% of these stores in this maturation curve year-on-year, quarter-on-quarter we have the maturation of the stores and it takes about four years on average to have full maturity. And the improvement in productivity and efficiency is checked every single quarter.

And we are achieving improvement in the profitability of our Northeast stores, and Baú stores are totally integrated with very positive performance already. And this is why I always mention integration, because this is a period in which we set up the compensation wages of our people and, of course, all this is on a maturation curve. We are very happy with the results obtained so far.

So, the Company places its bet on the growth of the market itself, and even with adverse circumstances we can go up. And the best defense, as far we are concerned, is the best attack, so to say. So, we grow same-store sales and we trust that at some point in time what we achieved in 2010 and that we mentioned as being reasonable for our activity will be achieved, and we are very close to that.

Fabio Monteiro:

Thank you very much. Thank you, Marcelo.

Guilherme Assis, Brasil Plural:

Good morning, everyone. Thank you for the question. What is the Company's strategy in terms of commercial aggressiveness, so to say. As far as I understand this, on your comments and your results, and given to the maturation level of the integration of the Maia stores, this should have a positive impact on your gross margin, and it seems to be lower than expected. I would like to understand if you are using the gains from Maia to be more aggressive in terms of gaining additional market share. And from now on, how will you be reacting to your competition in order to continue growing at the pace you expect to grow up to the end of the year?

Marcelo Silva:

Frederico Trajano, our Operations Director, will be answering; our COO.

Frederico Trajano:

Guilherme, good morning. As we said before, last year, at the end of last year vis-à-vis 2014, the World Cup and the growth in some specific categories ultimately generates a different margin mix. It does not mean that you are being more aggressive or getting more discounts. So theoretically, our margin should drop, but it did not drop because we are integrating positive factors in our management in Baú and also mainly in the Northeast.

So, we are not being more aggressive in terms of pricing this year, and if you look at our gross margin over the last ten quarters, you can see a very stable gross margin. Magazine Luiza works with a remuneration model, a compensation model to our sellers, which is linked to our gross margin. We are not aggressive pricewise, this is not our culture, this is not our characteristic.

Historically, we have stable gross margins, and the market is always asking when are you going to drop your gross margin. But historically, we have been keeping our gross margin, even with double-digit growth and even with the effect of the World Cup and the sale of TV sets, which is very significant in our mix.

And that would tend to press your margin down. We are being able to keep our margins with some specific channels, and ecommerce works with a lower gross margin than conventional stores. Proportionately the expenses are lower, and even with a 44% growth in e-commerce we have been able to maintain our gross margin.

And we are working with the same pricing policy and intelligent pricing and a healthy one, a mature one, and we are not doing anything extraordinary to gain market share, but very good media actions and very good work in our stores and growth in the Northeast and also take advantage of these inventories in these categories, and this does not mean all that we are being more aggressive in prices, and we have not given this guidance to the market in terms of increasing our gross margin.

Marcelo Silva:

I would like to add to this answer by saying that we improve our margin for category, and our sales people, they are paid based on sales and margins based on categories. So, it is not margin per category, and conceptually if you want to know our position regarding aggressiveness, I can tell you that Magazine Luiza is competitive and we do not aim at changing our prices.

We are competitive, our focus is not to have a low price every single day. We want to be competitive and we want to attract our clients and we have very good on-store service, and the relationship with our client is very good, and also with our employees.

Guilherme Assis:

Thank you. Another point, I understand about the margin and the negative impact of the mix, and how the Northeast helps to neutralize it, but that you have not changed your commercial policy. I have understood all that, but just a follow-up on this question, about the campaign, the draw and the World Cup and the whole building draw. Do you think this explains the market share gains that you are achieving, or is there any other factor coming into play in terms of commercial aggressiveness? Do you think you are similar to your competitors?

Frederico Trajano:

Going back, about growth in sales, we had a very strong bet on media and inventory for the 1Q. We had a lot of inventory available and lot of media visibility because of this bet that we placed on the World Cup, and this generated a very high growth in our sales vis-à-vis last year, in a market that tended to by technology products. Not only we had very positive factors, but ecommerce grew a lot, and this is inexorable trend for the long run.

And this has been happening in the last few quarters; the Northeast grew a lot. This is something that we had already been watching and growing much more than conventional stores, and the Baú stores grew a lot due to the improvements in the supply of these stores and the improvements in training of the team. And besides the technology sector, the white line, due to the seasonality of the very warm season in the that we had in the 1Q, white line performed very well, with air-conditioning and fans, and portables, and helping a lot.

So, many different factors came into play and all this together are not necessarily competition in terms of low prices to gain market share, reinforcing what I said before.

Guilherme Assis:

Thank you.

Luiz Carvalho, Tree Capital:

Could you talk about the ecommerce channel? How do you see the ecommerce margin, given all this growth? How do you see the final contribution, not exactly the gross margin, but in terms of the cost of the channel itself? And if you are happy with the growth rate that you are being achieving. Thank you very much.

Frederico Trajano:

Good morning, Luiz. As we have always said to the market, our ecommerce is one of the only or maybe the only profitable operation in the whole market. Unfortunately, we cannot disclose any specifics regarding the margin and margin contribution. And we have a very unique model, which is a multi-channel model in which ecommerce is fully integrated to, and fully integrated to the supply chain of the conventional stores.

We have the same distribution centers and all distribution centers are operating, but one that will be concluded still before the end of this month, to supply both ecommerce and conventional stores. And this integrated model gives us a very competitive advantage in terms of SG&A, because this is shared with the conventional stores. So, we do not have a duplication of costs, such as the case of most of the other operations in the market or that are under another taxpayer number, for instance a taxpayer ID.

So, the final margins of our ecommerce contribute positively to the overall margin of the Company. So, the more growth in the bottom it does help the Company to expand. And also it is capital light. We can grow ecommerce with a very small CAPEX, which is rather positive, if you think about the Company's ROIC. So, we will continue to grow a lot without the need to invest a lot in new DCs or anything like that, because we are sharing this infrastructure.

Luiz Carvalho:

One further clarification, within ecommerce, the B2C, could you update us about how many orders you are processing per day or some physical data that you could give us about the growth of this B2C channel, what goes directly in to consumers and does not go through the stores.

Frederico Trajano:

Luiz, I do not know whether I have understood your question. The figure that we report is sales and it is totally B2C. They go exactly from the website or from our electronic operation to the final consumer. So, this is where we report a 40% growth in sales, and this is the only figure that we have to report to you, and that shows how much this operation has been growing.

Luiz Carvalho:

The number of orders processed, what is the growth, the 40% growth, you mean about prices or volume?

Frederico Trajano:

Well, we do not talk about the average ticket for the operation. We are growing both in volume and in average ticket.

Andrea Teixeira, JPMorgan:

Good morning and congratulations for the results obtained. I would like to know something about growth, which is rather strong as we see. But I would like to know the results from your advertising campaign and the effect of this campaign on your SG&A. How are you allocating this higher expense? Because this quarter was very interesting, you had an improvement in SG&A, a dilution of SG&A. And I would like to know if you expect something similar for the next few quarters because of the World Cup campaign.

And also now turning to ecommerce, what should we consider in terms of growth for the 2H and is your expectation — I apologize because I was in the queue to participate and maybe you have already talked about that. So, I apologize for the question if it has already been answered, but have you changed your expectation, or do you continue with your double-digit growth guidance?

Marcelo Silva:

In the case of ecommerce, it is about 30% growth. In the 1Q it was even higher than that. Regarding SG&A, dilution of 2 p.p. already includes the increase in our marketing expenses. So, the 1Q absorbed the previous quarter in this regard, and it will happen in the next few quarters. So, the marketing expenses are the only ones that grew more than the other, because the other are within a normal range of variation vis-à-vis the previous year and also vis-à-vis the growth in our sales. So, we have already absorbed on a quarterly basis the marketing expenses, such as they are.

So, we had in December the World Cup expenses appropriated in the 2013. So, in the 1Q, we will be appropriating these expenses of the 1Q in the 2Q. What I mean is that it is appropriated on this base.

Andrea Teixeira:

Thank you. But the weight will be higher in the 2Q?

Marcelo Silva:

No, because we are expecting a robust growth for the 2Q as well. June would be speculation if we said, well, this is going to have this or that effect. Yeah, let us see.

What about holidays for instance? We are discussing this with the IDV because we have to check what kind of impact that could possibly have, if we have all these holidays because of the World Cup, but we will take advantage of June, because of the World Cup, and we will sell a lot.

Fabrício Garcia:

Good morning. Regarding June, the Mayor is requesting a holiday only for June 12th , and that would be very positive because if we speculate, then we could have up to six holidays, and this will not happen if the bill of law that was submitted by the Mayor is approved. So, June is still a big question mark, but the news that we are receiving are positive.

Andrea Teixeira:

And what about Mother's Day? Because Mother's Day is non-typical, because there is a lot of campaign. I know that this is a very relevant event for retail.

Fabrício Garcia:

Well, the mix of this month is not typical, because the participation of the image line is much bigger and this happens every four years because of the World Cup, so this demand for TV sets started already in April, but the demand for smartphones is very strong as well.

So, there is a change. The TV category has a much higher participation than in the normal months because of the World Cup. So, we have a strong Mother's Day, and plus the image sector because of the World Cup and both have a positive impact.

Marcelo Silva:

I believe many children would like to give their mothers a TV set to watch the game.

Andrea Teixeira:

Yes, I am a little bit concerned with the variation on the weekends that precede Mother's Day, maybe the mix was a little bit impacted negatively because of that? And you have to take advantage of that and it might cannibalize ultimately.

Fabrício Garcia:

Well, the mix changes because of the higher participation of TV sets, but the other portables and white line continue to sell very well.

Andrea Teixeira:

So, you are still selling more, or the sales are growing for these categories?

Fabrício Garcia:

Yes.

Andrea Teixeira:

And regarding credit, just to finish, the effect on credit; of course you achieved an outstanding result with the improvement in your delinquency levels, and what has been happening with delinquency more recently?

Frederico Trajano:

Marcelo Ferreira from LuizaCred will be answering.

Marcelo Ferreira:

The short-term indicators show a high degree of stability in delinquency and the approval rate is not changing. We have been improving our credit assignment model, we are leveraging other bureaus, and the approval rate is maintained and we expect it to go down; that is to say the losses to go down. So, the new crops, so to say, are showing that things are very much under control regarding delinquency.

Andrea Teixeira:

Thank you.

Tobias Stingelin, Credit Suisse:

Marcelo or Frederico, everybody is focusing on growth besides the result, of course. But how much do you believe the market overall grew this 1Q? Because you had a very good performance, you gained a lot of market share. And within same-store sales, you mentioned a few factors that explain the strong growth, some stores maturing and the integration of the Baú stores. How much do you believe these 22% can be broken down among the different drivers? Maturation of new stores represented so much, or how much same-store sales is growing in mature stores?

Marcelo Silva:

Tobias, we do not break down this kind of information. And as we said, it is a whole set of factories that we mentioned that lead to this growth, and the comparison base with the 1Q of last year. So, it is a whole array of different factors.

And your other question? You asked two questions, I remember just one.

Tobias Stingelin:

I asked about the market as a whole. How much was the growth of the market, do you think?

Marcelo Silva:

Well, the data that we have are published by the IDV and IDGE. IDGE published up to February, so it is a 13% growth in February. We do not have March yet because they only publish 45 days afterwards, so May 15th. And the IDV has been showing that supermarkets have been growing less and winter has not arrived yet. So, the winter collections are not selling yet, so the IDV figures are closed.

But what we know is that we have grown more than the average of our own market, but each company has its own strategy, its own model, and we cannot really draw a comparison there.

Tobias Stingelin:

GFK?

Marcelo Silva:

We do have GFK, we just observe GFK. There are some data that are not included in the GFK, so the degree of comparison it is hindered by that.

Tobias Stingelin:

I have two questions to confirm my understanding of what you said. Regarding the proposal or the bill of law submitted by the Mayor to have one single holiday on June 12th, what if it is not approved, what are the legal implications?

Marcelo Silva:

Well, the bill of law goes to the City Council of São Paulo City. You have the greater São Paulo and you have the São Paulo City, and the President said that she is not going to declare a holiday for the whole Country because this is specific for each city.

So, one thing a city that is hosting a game, so in that specific city, of course, nobody is going to work on that day, where the game is going to happen. And so, the IDV has the biggest stores included, and we are all working together in order to avoid this. You have most of the people are just going to watch TV, OK for the Brazilian team. OK, great. So, you want to watch the Brazilian team. But it does not make any sense to have a holiday for people to stay home and watch TV and watch other teams playing, and the bill of law of that was submitted by the Mayor of São Paulo is a very good initiative.

Tobias Stingelin:

Thank you very much for this information. Of course there will be a very strong reaction because of the cities and the states, everybody has to collect taxes. So, the fewer holidays we have, the more taxes. So, talking about the IDV, Marcelo, next year the benefit of the INSS has a validity date. So, it is 2015, and this will have to be reviewed?

Marcelo Silva:

Well, you know that as sales increase, the law loses value for certain companies, because the percentage gets higher. Wal-Mart, Carrefour, Pão de Açúcar, of course they are not in this land, so there will come a time when this will no longer be interesting. We do not know; it will depend on whether the same administration is re-elected or whether a new administration will come to power, but we will fight for it.

Bernardo Cavalcante, Goldman Sachs:

A follow-up on marketing expenses. I would like to better understand this. You are recognizing expenses as you disperse, is this what you mean? And would you have a higher disbursement in the 2Q, let us say you will spend 100 coins, for instance, with the World Cup. Are they being appropriated linearly? Or could you please explain how you are going to account for these expenses?

Roberto Bellissimo:

Good morning, Bernardo. They are appropriated as they happen, on an accrual basis, and this coincides with the payments being made, or they are very close for the year as a whole. This is the only expense that should not be diluted; it should remain stable as a percentage of our net revenue vis-à-vis the previous year. All the others we are working on them and we are diluting them, and we should continue to dilute them over the year.

And marketing expenses, due to this investment that we are making for the World Cup, this is helping us grow more than we would have grown otherwise, but marketing itself for the year should be similar to 2013. And these marketing expenses were slightly higher in the 1Q and will be higher in the 2Q, because of the World Cup sponsorship and the building campaign, the draw.

Bernardo Cavalcante:

Two other questions: given that there was a more significant maturation of the previous acquisitions that were being integrated for quite some time, are you considering new acquisitions?

And what about LuizaCred, we see a worsening year-on-year 13% to almost 15% in the NPL 90, and provisions went down, so you went 147% from 126% coverage ratio, and this compared to 150% or 200% for banks that have a less risky portfolio because they lend with collaterals and real estate, etc. And your credit has less collateral for individuals. So, how do you see the coverage level that will be stabilized and are you comfortable with this level? how you compare this to a bank's coverage? So, these are my last questions.

Marcelo Silva:

The first question I will answer, and the second Marcelo Ferreira will answer. The first one is the following. We always say that we will never do this; we do not say, we never say never. Let us say there is a great opportunity ahead of us, then we might study. But our plans for 2013 and 2014 do not foresee any acquisitions whatsoever. So, now in 2014 we have no intent of making any major acquisitions.
We intend to open 30 to 40 new stores and Ponto Frio is the divestment that was mandated by CADE, and this has to be published, of course, and communicated to the market, plus organic growth mainly in the Northeast. And we are talking about between 30 and 40 new stores for 2014. But as far as acquisitions are concerned, no, they are not in our rated screen. But let us say in the segment of 2014 or 2015, let us say, we see an opportunity; of course, we will study it. But I repeat, we are not talking with anybody. We are not being approached by anybody. We are not planning anything in this regard.

Roberto Bellissimo:

Bernardo, let the answer your question properly. The 90-day portfolio, you have to look at the more recent evolution of the 90-day and it has been dropping vis-à-vis the last two quarters.

If you compare with the results one year ago, what happened was the following: you have to go back in time, a little bit, in 2012. We started to sell more CDC, direct consumer credit. So, we reduced our approval rate for the card and we changed our strategy with preference to CDC and more balanced between the CDC and the card. And in the CDC, the loss is a little bit higher, but it is offset by a much higher interest rate.

And with that we started to grow our CDC operations in 2012, a direct consumer credit. However, we knew that the NPL would be going up a little bit in 2013 because of the growth in the CDC in 2012. So, we made a lot of provisions in 2012; this is why the result of 2012 was not that good for LuizaCred.

Then it started to improve by the end of 2012, in the last quarter of 2012 LuizaCred already obtained a very good result but the NPL was still low. In 2013, we had a very high balance of provisions and a low NPL. This is why we had 147%, 150% coverage ratio.

And as we had said in 2012, and all this is calculated by Itaú, very conservatively. So, over 2013 the NPL went up slightly, and the coverage ratio started to drop gradually because we already had these provisions built in 2012, as we maintained a very conservative position and we continue to improve our models and reducing some approval rates.

Our expectation was for the NPL to go back to lower levels. So, it went up over 2013 and now it is dropping back to previous levels. This is why your comparison of the coverage ratio today with one year ago does not make sense. You should compare this with June–September because this is where you can see this fact of improvement and also because of the CDC being stabilized now.

So, we are no longer growing CDC as much as it grew in 2012 and early 2013. So, this is why we are comfortable with the NPL trend and the coverage ratio as well. But we do not compare LuizaCred's coverage ratio with banks'. The coverage ratio is not the target for LuizaCred; it is simply the result from a calculation, which is the balance of provisions that Luiz had vis-à-vis the NPL. And the balance of provisions as a consequence of the expectation for losses that is made by Itaú, based on the analysis that it carries out of the portfolio and the clients and all the models, and we are comfortable, because LuizaCred has been building more provisions than the minimum required by the Central Bank, for instance, last year.

I said that the result of LuizaCred in IFRS was R$89 million in BR GAAP, which is the minimum required by the Central Bank, by law 2682 was R$116 million. So, it was higher, and this quarter once again in BR GAAP, the result was higher than the one that we are publishing, of R$40 million. It was in fact R$58 million. So, the provisions are very conservative and the trend is consistent in our opinion.

Bernardo Cavalcante:

Very clear. Thank you very much.

Inácio Fradega, Lanim:

Good morning. Congratulations for the result. In millions of Reais, how much where your provisions for profit sharing program this quarter?

Marcelo Silva:

We do not disclose this figure. We are provisioning on a monthly basis based on our results, and I can tell you that the amount nominally will be very similar to the one used last year for our Profit Sharing Program. This is just a normal expense during 2014, so in this cost dilution we already include the normal profit sharing program of the Company, which is extended to many of our employees. Last year it was extended to 9,000 people and this year depending on the performance of each store and each area of the Company, we are already provisioning for that, and we can assure you that it will be very similar to last year in nominal terms.

Inácio Fradega:

Thank you.

Operator:

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

Marcelo Silva:

Thank you very much for participating in our call. And we would like to reiterate our commitment and our trust that we are complying with what we said in previous years. The integration of the stores and the commitment to delivery results gradually positive and consistent results over time. So, we have already delivered that in 2013 and in the 1Q14, and we trust this will continue to happen in 2014, leading us to better results for 2014 overall than in the previous year.

Thank you very much and see you next time.

Operator:

Thank you very much. The 1Q14 earnings conference call of Magazine Luiza is closed. You may disconnect now. And have a good day.