

## EL PUERTO DE LIVERPOOL, S.A.B. DE C.V. 2014 SECOND QUARTER EARNINGS RELEASE

### Economic Outlook

Key economic indicators point to a slow consumer recovery during the second quarter of 2014. Retail sales delivered mixed results behind lesser growth in disposable income.

Employment data indicate a relative improvement in job creation in spite of a slight increase in the overall unemployment rate.

The consumer confidence index recovered during the quarter upon improvements in inflation, job creation momentum, as well as total number of jobs.

Slower demand for credit cards led to moderate growth in consumer credit availability.

### Key Figures

(Millions of Mexican Pesos)

Liverpool's total sales grew 8.5% during the second quarter and 8.4% in the first semester of 2014, relative to the same time periods, respectively, the prior year.

The following are Liverpool's key results by the end of the second quarter, 2014.

	YTD			2Q		
	2014	2013	VAR %	2Q 2014	2Q 2013	VAR %
Total Sales:	34,907	32,194	8.4%	19,627	18,094	8.5%
Retail (includes services)	29,570	27,458	7.7%	16,780	15,510	8.2%
Interest (credit cards)	4,030	3,619	11.4%	2,195	2,026	8.4%
Leasing	1,307	1,117	17.0%	652	558	16.8%
Cost of Sales	20,826	19,279	8.0%	11,856	10,806	9.7%
Gross Margin	14,081	12,915	9.0%	7,771	7,288	6.6%
Operating Expenses	10,413	9,133	14.0%	5,465	4,735	15.4%
Operating Profit	3,820	3,901	-2.1%	2,451	2,629	-6.8%
Majority Net Profit	2,689	2,815	-4.5%	1,741	1,851	-5.9%
EBITDA	4,753	4,730	0.5%	2,922	3,043	-4.0%

## RESULTS BY BUSINESS DIVISION

**Retail:** Total sales and same-store sales for the quarter rose 8.2% and 5.4%, respectively. Year to date, (first semester 2014), growth rates were 7.7% and 4.8%, respectively.

Industry figures published by ANTAD, cumulative as of June 30, 2014, indicate growth rates of 4.5% and 0.2% for total sales and same-store sales, respectively. Department stores associated with ANTAD posted a 7.1% increase in total sales, and 2.9% increase in same-store sales.

Growth in the shoes and clothing category outpaced that of general merchandise, a clear indication of an increasingly cautious consumer as well as the purchases done in advanced during the “El Buen Fin” promotion of 2013.

Key events influencing sales performance during the quarter include a calendar effect for Easter, which took place in April 2014, compared to March in 2013; moreover, sales on the last Sunday in June were affected by the soccer World Cup broadcast of the Mexico playoff match..

**Interest – Consumer Finance:** revenues for the period between April 1 and June 30 grew 8.4% vs. the same period a year ago. On a year-to-date basis (January 1 through June 30), revenues increased 11.4% vs. prior year. Debit card and cash purchases increased 1.1 points and 2.9 points, respectively, which coupled with a 2.2 point decrease in Liverpool’s brand credit card transactions – now comprising 48.4% of all sales– likely unveil high consumer debt levels as well as changes in shopping behavior behind Mexico’s tax reform.

**Leasing:** Total revenues from shopping mall leasing grew 16.8% for the second quarter and 17.0% for the first semester in 2014. It is important to note that sales growth in this division is expected to level out in the upcoming months as no additional income is anticipated from key money rights and should remain comparable to those of 2013 for the remainder of the year.

### Cost of Sales and Gross Margin

Increased promotional activities designed to maintain Liverpool’s commercial strategy within a competitive and sluggish atmosphere drove a 9.7% rise in cost of sales during the quarter, which created a profit margin erosion of 70 basis points. On a year-to-date basis, however, Liverpool’s gross margin maintains a 20 basis points improvement vs. same period a year ago behind business performance.

## **Operating Expenses**

Operating expenses rose 15.4% during the second quarter, behind the following drivers: 1) increase in bad debt provision to service a larger credit portfolio and a slightly higher default rate; 2) greater corporate and administrative expenses associated with Liverpool's growth and its online sales channel; 3) expenses associated with the implementation of cutting-edge IT systems, as well as concerning maintenance and depreciation; and 4) expenses derived from new store openings, shopping malls, and specialty boutiques.

On a cumulative basis, operating expenses grew 14.0% compared to prior year. The increase in bad debt provision and Company growth expenses accounted for 4.8 and 4.0 percentage points of this change in operating expenses, respectively.

## **Operating Profit**

The Company delivered Ps. \$2,451 million in operating profit during the second quarter, representing a decrease of 6.8% relative to the same period in 2013. On a year-to-date basis, the decrease was of 2.1%

## **EBITDA**

EBITDA for the second quarter was Ps. \$2,922 million or 4.0% less than the same period in 2013. For the period between January 1 and June 30, EBITDA was Ps. \$4,753 million or 0.5% less than the same period in the prior year.

As a percentage of sales, EBITDA represented 13.6% in the first semester of 2014, a 100 basis points decrease versus the same period in 2013. For reference, by the end of the second quarter, the cumulative EBITDA for the past 12 months was 16.35%

## **Cost of Financing**

Net financing expenses in the second quarter of 2014 were 6.1% less than those of the same period in 2013 behind greater cross currency exchange gains. On a year-to-date basis, the decrease was of 4.1% as compared to 2013.

## **Net Majority Income**

As a result of the performance outlined above, net majority income by the end of the second quarter was 5.9% less than the same period a year ago. On a cumulative basis, net majority income reached Ps. \$2,689 million, which represents a reduction of 4.5% from the first semester in 2013.

## **BALANCE SHEET**

### **Cash and short-term investments**

By the end of June 2014, cash and short-term investments represented Ps. \$553 million, 59.3% less than the same period in 2013.

### **Accounts Receivable**

At the end of the second quarter, accounts receivable were of Ps. \$26,056 million, which represents a 6.8% increase relative to the second quarter in 2013. It is important to note that income from the credit portfolio rose 11.4% in the same period. As of June 30, 2014, non-performing loans over 90 days represented 4.4% of all receivables, as compared to 3.3% during the same period in 2013.

### **Inventories**

Inventories accounted for Ps. \$12,731 million by the end of the second quarter 2014, 15.5% greater than the prior year. 3.8 percentage points of this increase are the result of a shift in Liverpool's inventory accounting policies, which now include cross-border in-transit merchandise. This policy change did not have a negative impact in the Company's working capital.

### **Cost-bearing Debt**

This account closed at Ps. \$13,521 million, representing a 1.1x debt to EBITDA ratio for the last twelve months.

### **Expansion and Recent Events**

A new Liverpool store opened in the first semester of 2014, located in the shopping mall "Antea" in Querétaro, Mexico.

The expansion plan for 2014 includes two additional Liverpool store openings, two shopping malls in the cities of Toluca and Puebla, respectively, as well as two Fábricas de Francia stores in Mexico City.

Furthermore, 14 boutique stores were opened in the first semester of 2014 represented by the following brands: Sfera, Aéropostale, Chico's, Etam, Destination Maternity and Banana Republic. This is in line with the objective of opening 50 boutique stores in 2014.

## Capital Expenditure

As of the date of this report, capital expenditure for expansion and remodeling efforts reached Ps. \$2,155 million.

## Analysts Coverage

In compliance with the Mexican Securities Market Law, the following is the Company's disclosure of institutions and financial groups that assess its financial and operative performance:

Actinver	HSBC
Barclays	Itaú BBA
BBVA Bancomer	JP Morgan
BTG Pactual	Santander
Deutsche Bank	Ve por más
GBM	

## Company Profile

El Puerto de Liverpool, S.A.B. de C.V. is the largest full-scale department store chain in Mexico, with 102 operating units under three different brand names: Liverpool, Fábricas de Francia, and Liverpool Duty Free. With over 1.4 million square meters in sales floor, it operates in 57 cities throughout Mexico.

The Company's real estate operations comprise 22 shopping malls in 15 different cities in Mexico, where Liverpool owns over 395 thousand square meters of gross leasing space.

With over 3.5 million accounts, Liverpool is the third largest credit card issuer in Mexico.

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