

Q1 2014 Earnings Call

Company Participants

- Libano Miranda Barroso, Chief Executive Officer
- Marcelo Rizzi de Oliveira, Investor Relations and Strategic Planning Officer
- Ronaldo labrudi dos Santos Pereira, Chairman of the Board of Directors
- Vitor Faga de Almeida, Chief Financial Officer

Other Participants

- Ricardo Boiati, Analyst
- Robert Ford, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, and thank you for waiting. Welcome to Via Varejo's Conference Call to discuss the results of the First Quarter of 2014. This event is being broadcast via webcast, and can be accessed at www.viavarejo.com.br/ir, with the respective presentation. The slide selection will be managed by you. There will be a replay facility for this call on the website. We inform you that the company's press release is also available at their IR website.

This event is being recorded and all participants will be in listen-only mode during the company's presentation. After Via Varejo's remarks are completed, there will be a question-and-answer session when further instructions will be given. (Operator Instructions).

Before proceeding, let me mention that forward-looking statements that might be made during this call are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of Via Varejo's management and information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate 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 also affect the future results of Via Varejo and leads to results that differ materially from those expressed in such forward-looking statements.

Now, we would like to turn the floor over to Mr. Marcelo Rizzi de Oliveira, Investor Relations Officer of the Company.

Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Good morning everyone and welcome to Via Varejo's results conference call for the first quarter of 2014. We would like to start with a brief introduction by Ronaldo labrudi of GPA and Chairman of the Board and a brief presentation of the results by Libano Barroso, CEO of Via Varejo and Vitor Faga, CFO of Via Varejo. Afterwards, we will have questions and answers.

Now, I would like to give the floor to Ronaldo labrudi.

Ronaldo labrudi dos Santos Pereira {BIO 20052606 <GO>}

Good morning everyone. First, I would like to thank you very much for participating in this call, analysts, investors and other participants. This is the first time, I participate in this call as Chairman of the Board. But I think you all know that I have been part or a member of the Board since last year and I have been following the company. So I know the work being carried out by the team. And first of all, I would like to congratulate the Via Varejo team for the results obtained and that we will be presenting to you today and that were published yesterday.

I would like to thank you Marcelo to you and your team for organizing this meeting and I would like also to add that it's a great joy to have Libano as the CEO of the Company. When we got Valim's resignation letter, and of course, we respect his decision. Libano's name was the natural choice to be the CEO of Via Varejo. Libano, as you know is a very well-known professional in the market and he operated and he was in charge of CCR and TAM during quite an extensive period of his professional history. So he is very much focused on results.

And one point that I think is extremely important is to have somebody who is very much focused on the governance, so the history of Libano, together with the experience that he acquired at GPA. And you know that in retail six months is quite a long time. So all these led us to submit to the Board of Directors, his name and his name was approved unanimously with the Klein Family and the Casino members of the Board and everybody.

And I would like to stress one additional point, which is the fact that Libano, during the time that he was with us, he was in-charge of the strategic planning VP, which means the person who sets up the budget and define the medium and the long-run plan and looks after the structure of the company. And because of that Libano helped draft the strategic plan and also the budgets of Via Varejo for 2014.

So, for these reasons beside being Vice President then having participated in the whole process, he also followed closely the history of Via Varejo as a member of the Board and which makes us very comfortable to inform the market and to say that he is coming on Board as the brand of continuity. And we are committed Libano and the Via Varejo team and the Board, we are committed to -- complying with the budget and with the implementation of the company's business plan.

FINAL

Bloomberg Transcript

So I would like to add and I have already said that to the Via Varejo team, but we are totally confident on Via Varejo's team, because of their experience, because of their deep knowledge of retail and for the deep knowledge that they have of the business itself. So we trust this team, we'll give all the necessary support to Libano, so that we may deliver as we will be seeing all the results as planned.

Before giving the floor to Libano, once again, I would like to reiterate that we are and we continue to be totally confident on Libano's leadership and Via Varejo's team. And as we will be saying during our call, the first results that we are showing you reinforce our trust.

Once again, thank you very much for participating in our call and I will stay with you during this call. And of course, we will be available to answer any questions that you might have. So, Libano you have the floor now.

Libano Miranda Barroso {BIO 4670536 <GO>}

Ronaldo, thank you very much. Good morning. And I think that in order to reiterate what Ronaldo said, I would like to say that the results that we will be presenting, will be proof of that.

We are now on page number two, where we have the main highlights of the first quarter of 2014. And here I would like to emphasize the fact that we had the gross revenue increase of 6.1% on a year-on-year basis and reaching R\$6.2 billion, the EBITDA margin was 8.9%, which means a significant growth, namely 44% and an improvement of 2.4 percentage points on a year-on-year basis. And driven by our discipline and the search for efficiency and that were translated into a reduction in our operating expenses.

Our management looks for balance between profitability and growth. And our operating margin and EBITDA and also the net income that shows the operating discipline and the financial discipline. And R\$179 million net income with a 57% growth and a margin gain of 1.1 percentage points in a comparison to the same period last year.

Now we are going to get into more details and Vitor Faga, our CFO will be addressing you now.

Vitor Faga de Almeida {BIO 16103413 <GO>}

Good morning, everyone. Thank you Libano. Page number three. Now we will talk about the details of the main indicators that Libano has just described. And the first one is the gross sales. A 6.1% growth on a year-on-year basis; same-store sales 3.6% increase and it's important also to talk about the opening of eight new stores, essentially Casas Bahia stores with a focus on the Northeast region of Brazil. And this revenue allowed us to have a gross profit of 30.8% and it's important to say that we increased 1.6 percentage points on a year-on-year basis in growth income. Reduction of the logistics cost, as you know or many of you know that track the company. You know that these costs are inside the growth income and an improvement in the consumer profile with products with higher value-added and more telephony also.

FINAL

In this logistics and assembly cost, there are two processes that we have been forming since the end of 2012 or beginning of 2013. Decentralization of deliveries by means of our DCs, optimization of deliveries with a higher number of DCs in the company and also the optimization of the assembly process with the major group of professionals and that has been undergoing an optimization process with higher efficiency, more deliveries and more optimized cost.

On the next slide on page number four in the EBITDA margin composition, I would like to share the evolution of general and administrative expenses with a 0.8 percentage point decrease in the first quarter, vis-a-vis the first quarter of last year. And this represents 2.4%, and it's important to say that we had a nominal reduction in the value of these expenses not only a dilution, but also a reduction, a nominal reduction in administrative expenses as well.

Selling mainly from the optimization of corporate, expenses optimization of telecom and IT expenses in the period and also positive evolution in the selling expenses indicator 20.8% to 19.7%, 1.1 percentage point gain in this indicator. And as a consequence of the optimization of marketing expenses, logistics associated to selling expenses and mainly to the implementation of the routing tool for deliveries and rationalization of general expenses in our stores and that impact our selling expenses.

With the evolution of 0.6 percentage points in the growth income and 0.8 percentage points in G&A and 1.1 percentage point reduction in selling expenses, the company was able to deliver 485 million EBITDA and 8.9% increase on a year-on-year basis, 2.4% increase and the percentage points a very important evolution in our margin stemming from this optimization process of the company that has been occurring since the end of 2012 and beginning of 2013. And we can see this very clearly in the results presented in this slide.

Now, going to page number five, it's important to tell you about the improvement in the working capital of the company. And here we show the gap between suppliers and inventories, and as you know, we have an important percentage of our sales that I carried out in installments. And the company discounts these receivables for this comparison purpose.

We have this gap between suppliers and inventories as an indicator. We got R\$150 million of operation in this gap between suppliers and inventories on a year-on-year basis. We generate again in days of COGS of three days. And the company was able to reverse this equation, gap between suppliers and inventories was negative and the company can grow by generating cash.

And in this quarter, there was an increase in our inventory levels, especially to cope with the second quarter when we will have two very relevant seasonal events. The first one is Mother's day, and the other one that drives the sales, which is the World Cup, for the second quarter. And for this, we worked with the strategy of having a higher level of inventory in some categories and which is financed by our suppliers, so we can see this increase in the line suppliers during this period as well.

Now, going to page number six, we see a positive evolution in our cash and our cash equivalents. We see at the end of Q1 compared to Q1 last year of about R\$500 million in maintenance or evolution of the net cash at the same magnitude with the effect of cash generation in this period operationally and also working capital went over this process. Besides the cash generation that contributed to the increase in our cash. The company paid dividends and the company also made an acquisition of Bartira last year. So this is a major cash generation that undoubtedly makes our balance sheet even better and that allows us to face macroeconomic situations and tapping into the opportunity of generating value in this environment.

And the financial results. There was a decrease in the financial result that went from 2.4 negative with sales to 2.9% of the sales and as a direct consequence of the increase in the Selic rate. And the Selic rate went from 7.25 in Q1, 2013 to 10.5 in Q1 '14. And most of you track very closely this macroeconomic indicator and this impacted, of course, directly, our financial expenses. But as we can see, the company by means of some internal initiatives and as a consequence also. Of a more sound balance sheet with a better cash position, a more relevant cash position in the period, we were able to offset the negative effect of this Selic rate partly in our financial results. And we see from 2.4% to 2.9% here.

And the combined effect on page number seven, the improvement in the gross income due to the logistics and assembly cost reductions, together with the improvement in selling mix or the sales mix and the selling and general and administrative expenses optimization, and in spite of the increase in financial expenses because of the Selic rate, offset in part by some internal initiatives. We were able to get 179 million net income and evolution of almost 60%, if you compare this on a year-on-year basis from 2.2 percentage points to 3.3 percentage points evolution in the gross margin, approximately 50% increase, which gives us 1.1 percentage point increase in the period.

With this, we finished the brief detailing of our financial results. And I would like to give the floor back to Libano, who will be talking about the outlook for 2014, and the continuity of our strategic plan.

Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you very much, Vitor. First of all, I would like to thank everybody for having risen up to the challenge and for having a team that know retail in dept and that are a very competent team. We manage the most admired brands in retail in Latin America and the most valuable ones. And this is why we carry a very major responsibility on our shoulders, but I'm happy to be with this team seeking the results that we have achieved, because we have a very strong focus on people. We are totally devoted to our clients. And our employees are trained to deliver the best solution to our clients with balance between client satisfaction and results for our shareholders, with a very well-balanced relationship with our suppliers. We have a win-win relationship with our suppliers, we distribute their products and together with them, we seek the best results for the whole chain.

Our shareholders, to our shareholders, we trust our strategic plan and we say, when I say we are, when Ronaldo said at the beginning, we are part of this plan. Be it an executive myself of the GPA group, be it as a member of the board of Via Varejo, we have been

interacting and I am 100% committed to our plan, be it in the short and the medium and the long run.

The way we will be delivering our results has everything to do with Ronaldo and the expertise of this team regarding retail that they know better than anybody else, the seasonality that we have during the year and how to work in each different moment of the year.

In the next quarter, the second quarter we have very significant dates that Vitor has already mentioned, we have Mother's Day, we have the World Cup. And we figured ourselves strategically in cooperation with the industry, with our suppliers, and we are ready to distribute and to cater to our clients with the sales volumes, with our logistics. And we trust, we will have a very good sales level for the second quarter. And for the second half of the year, we will work with efficiency in a moment when we will be targeting higher margins and accelerated sales and we will be always communicating with you.

There is an ongoing search for improvement in our processes, efficiency, discipline, and cost and looking always for better and better processes, using more and more technology. And with difficulty and the design and this is valid for all our processes, administrative, financial, logistics, our relationship with our clients and with our suppliers. We also see opportunities besides the internal processes. We see our processes with other companies highlighting Nova Pontocom, where we have been developing synergy programs, mainly in joint purchases. And also in logistics we have major strides already achieved, and we see the possibility of more and more achieving in higher integration between the physical and the online world.

And one example of that is our strategy of multi-channel, which is to deliver to our clients where he wants to be served, he buys in the brick and mortar stores and he checks on the internet or he buys online and we are developing always to deliver convenience to our clients. So that they may buy more with a higher degree of satisfaction with our retail network. So this is a message that I would like to leave with you and we are seeking the most advanced strategies regarding purchases and foresee and other conveniences such as delivery according to a certain schedule.

And we have two vectors or two drivers that we see that we will be especially important. Telecom and furniture, we acquired Bartira, the controlling interest in Bartira. Because this is an area that has a good margin and that can differentiate us more and more. And in terms of smartphones and cellular phones in general, we are already researching opportunities to become service providers as well. In this area, we have a strategy that we are developing and over time we will be informing you about these new initiatives.

Having said that, I would like to give the floor back to Rizzi, so that we may start the Q&A session.

Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Now we would like to open for questions.

Questions And Answers

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Thank you. Now, we are going to open for questions. And please ask all your questions, all at once and wait for the company's answer. (Operator Instructions).

Operator

Mr. Ricardo Boiati from Bradesco has a question.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Good morning everyone. Regarding the expectations of the World Cup, could you elaborate on this whether we can have some kind of feeling or perhaps to compare to other important events during the year. Perhaps it cannot be compared with some Black Friday maybe, and also if this impact has already begun to be felt or if this benefit stemming from the World Cup will only appear closer to the event itself?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you for your question, Boiati. Regarding the World Cup event, there is a trigger, a sales trigger, so to speak and also there is the event of the change of categories. I will explain. We have seen during the last World Cups especially 2010 but also last year in the Confederations Cup a mix change which especially technology with more TVs sold and a gradual reduction of a white line and furniture. But the important thing is that there is being a reversal of this trend in the third quarter. We had a smaller relative participation of technologies especially TVs and a greater increase of the other two categories that I've mentioned.

So this is what we expect from the different categories or classes of COGS.

It's also difficult and this is the other part of your question to forecast clearly what will happen the net impact of this event. We hope that there will be an increase and we are observing the things accelerating, we've been seeing this at the end of March, when we started to promote the TV sector and carry out marketing of this event. And we have increased this at the middle of April and we hope to have an increase of sales in the second half of the year, higher to the first half of the year, because of this event.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Thank you very much. Another question regarding the integration, is there anything new about the consultancy work that's been going on, is that helping you and what can you tell me about any novelties with this integration?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you. This is Libano speaking. We are developing a search for synergy among businesses. And the main news as the synergies are coming, we are already carrying out

FINAL

Bloomberg Transcript

FINAL

joint purchases and the consultancies that we had as its main objective. How to bring international experience and national experience. So, bring in the best practices regarding maintaining Corporation completely dedicated and with the necessary incentives for synergy.

So, this is a clear focus and the incentive mechanism will apply to the market rules, the best governance experiences and which encourages all parts in searching and seeking synergy. For this, we believe that this work is now drawing to a close and we believe by the next few weeks it should be ready. And as soon as it's closed, it will be submitted to the Governance groups of the company and so this is the conclusion and as soon as it's closed, we will disclose it to the market.

What we might say is that the work will be done extremely carefully and listing into all those involved in the process from a Via Varejo from Nova, from Exco [ph] and also from GPA, taking much care to follow the best commercial and governance best practices.

And we will be disclosing this as soon as possible.

But even more important the synergies are happening, they are occurring and there is a clear alignment in this direction and today work is showing us that the sites top management seeking results. We also have a way of relationship developed, which is totally well programmed.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Well, thank you very much and I hope you've have much success.

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you.

Operator

Mr. Bob Ford from the Bank of America Merrill Lynch.

Q - Unidentified Participant

Thank you and good morning. And congratulations on your results. I have a question about the delivery fees. How many deliveries did you have in the first quarter? And of these which were special deliveries?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank very much for your question. We've started pilot of charging for freight to the end of last year. We had a successful six periods (ph) and we've started the roll out of this pilot for all of Brazil as for March. So we repeat the benefits of this initiative from the point of view of results, the first quarter, I would still say that there is still not too much, too many results because it's still in a pilot phase with a few cities, but in the Northeast, especially

this was already charged, but we should have a greater impact and the results of this initiative will reflect much more significantly.

Now as from the second quarter, it's a ramp-up process, a gradual implementation process which has to be done very carefully with some good operating processes, so that this will not revert negatively to the company. So we hope that the next quarters we will have better results and be able to tell you more about this important initiative.

Q - Robert Ford {BIO 1499021 <GO>}

Excuse me. Could you talk about the reaction of competitors and the consumers?

A - Ronaldo labrudi dos Santos Pereira {BIO 20052606 <GO>}

Yes, by all means, talking about competitors, we have seen that in most regions, there has been a trend to follow the same strategy especially in Minas Gerais, most competitors have followed the same strategy. And now we will be monitoring the reaction as from the rollout that we are developing in the most competitive markets in the country.

Now regarding -- that's competitors, now regarding clients, there have been no reaction, negative reaction. The clients have understood that this is a service, an important service to them, which adds value. So there's been no negative reaction from the clients.

Q - Robert Ford {BIO 1499021 <GO>}

And my last question is about your portfolio and bad debts and delinquency.

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Delinquency, it's very important to remember what we have about 70% of our sales other than so much basis and we use two methods, credit cards 55% and another 15% -- 15 points which are the cards. So when we have, then a delinquency with a payment book.

And this is very clear in the last -- right from the beginning of 2012, it just being 1 percentage point up or down. But it has become very stable. The only comment is that there is a seasonality especially in July and August. Well, in 2012 and 2013 where there's been a slight increase, but this reflects the sales that were carried out or at the beginning or at the end of the following year.

This brings a slightly higher delinquency level, but this is seasonal and what we can see in our portfolio this year, this seasonality should have a similar impact that we saw last year. Today, we have a delinquency level which is very stable, when we take the last 2, 2.5 years.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. And once again congratulations.

FINAL

Bloomberg Transcript

Operator

(inaudible).

Q - Unidentified Participant

Good morning. I have two questions. First the number for 2014. The question is the EBITDA, there should be more growth of sales to --because of everything that you've been talking about. But the sales was slightly frustrating, but the growth has offset this. So, do you think that from now on, if in 2014, as a whole the equation might invert a little bit and the cost reductions might offset the gain in EBITDA regarding what you expect at the beginning of the year? That's my first question.

And the second, I want to go back to the previous question and sorry to hop on this, but now looking at the second quarter I want to understand regarding the World Cup, this inventory level that you have built up, so how much are you expecting to sell? I know exact number is difficult. But if you could give me an idea that would be fine.

A - Ronaldo labrudi dos Santos Pereira {BIO 20052606 <GO>}

Well, first of all your first question, we think that by the breakdown during the year, or the quarters where first quarter and third quarter have no seasonal event where we have a growth of sales or in the second and fourth quarters where we have more seasonal events, we will promote sales and we will have slightly higher sales. But this will not bring changes in the profitability of the company or improvement, operating improvements. Logistics, IT or marketing or the corporate area in all the areas where we are implementing these initiatives, they continue, they are an ongoing process to improve profitability of the company. So for this reason we expect a constant ongoing growth of profitability.

With this seasonality, regarding the sales volume, there has been no change of strategy or expectations about what the company had already drawn up at the end of the year. For 2014 this was the strategy that we designed, we drew up and we are implementing now. So there has been no change in expectations and a change of strategy.

2014 is an important year for the company with the implementation of this initiative and should show the results and margin growth as we have been already -- we have been able to see in the first quarter. Now regarding inventories in the World Cup, we have a higher level of inventory. This is the strategy, which the company took to phase (ph) up to the sales of the second half of the year.

The two categories, which are putting this level up, first of all TVs and mobile phones, especially smart phones. Well we have sales expectation which is quite significant for the second quarter. Especially TV and mobiles and smartphones, we have a growth, the expected growth of 20% to 30% year-on-year. So this was an important growth and honestly requires forecasts and plans from ourselves, so that our clients can receive the high level of service with the quality. We do not expect these levels at the end of the next quarter.

Q - Unidentified Participant

Thank you, Vitor. Just a follow-up, I think that Libano mentioned if I'm not wrong about a partnership or negotiation with suppliers and is already close regarding dividing or sharing the risk of the inventory.

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you for your question. We are working with the industry as we have always done on at other opportunities, sharing the growth and aligning interest. This is an important event for us. You can buy a TV of 60 inches and take one of 50 inches for R\$1, that's tremendous promotion. We lead campaigns cooperating with the industry and aligning our interest.

Q - Unidentified Participant

Thank you very much Libano.

(inaudible). I have a question. Good morning. Thank you. I have a question regarding the commercial position of inter Nova Pontocom, the growth of Nova Pontocom was very strong and it's above and the Via Varejo with lower expectation, so do you speak where there has been a cannibalization, with a physical stores and also with this negotiation of the joint commercial policy, what we expect, perhaps the e-commerce will it grow more in line with the market or a recovery of the sales of the physical stores?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you for your question. What we see -- what we have seen on the last quarter has been a stronger growth of e-commerce sales when compared to conventional sales or stores. There has been an alignment of the strategies through different sales channels and there has been an experience of different terms and prices which are important differences aligned with the practices of the different channels.

We have not seen a material difference in these strategies in the last quarters. And we don't expect one in the next month. We have a very clear calendar of promotions where some categories are typical for conventional stores and associated to the sale of the product, but also services. And these are categories which have important performance in the conventional stores.

This strategy in the conventional stores is aligned with the strategy followed by the online channels.

Q - Unidentified Participant

Okay, so follow on -- following on, we have an integration of corporation, but still we have no cannibalization?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Yes there is (inaudible) growth have an effect on both companies. We had a base, a significant base last year. And the fourth quarter on the Norte. The fact that one of our sales regions, the smartphones, the driving the clients to use Internet more and more, the penetration of broadband in Brazil is still far below its potential compared to other emerging countries. So it's natural that the world of e-commerce will grow more than the conventional.

Well, so there's nothing strange about that. Our sales people are trained in the conventional world to work with the client and to come to the best deal. The enterprise is negotiated and also includes a service offer. So, we try to do an up sale, the client in the conventional world, we try to make the client interested in special products and we offer the advantages of a project started better one be it type technologic or financial, we try an upsell or a cross sell. So that they might buy, since they are changing their TVs, buying new TV. So how about buying furniture, so that's bacteria [ph], so they review or modernize their living room.

So we try and offer them something would be great for them. So, the integration of the conventional stores on the online is interesting, the markets are fragmented and obviously, there are other many players fighting for those market.

The Nova is second in the ranking and it's also a fragmented market. So, we have to know how to integrate these channels in such a way that the client who wants to buy a conventional store, he can check at Nova and buy at Via Varejo and the client who wants to buy online, he can also seek on our online channels because we have a market share of over 20% the probability of its client's return as one and five.

So, let's retain him. Be it outlined or in the conventional world. So, these has to be aligned and we think that the growth rates are good.

Q - Unidentified Participant

Well this commercial policy, joint commercial policy of yours. Is it already in force or are you still developing it? And are you discussing this with your consultancy service?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

We are already operating with joint purchases and we have practiced a policy of commercial alignment policies and practices. So this is ongoing and although our consultancy company we had has not yet finished support is that there is an alignment of all in the search for synergy.

So things are ongoing, and now with the clearance of the consultancy's work, and how we will convey this to you efficiently, simply in a way that will be easy and how to keep the incentives aligned for all channels.

Q - Unidentified Participant

Thank you.

Operator

Mr. Joseph Pagano from JP Morgan has a question.

Q - Unidentified Participant

I'm speaking in Joseph's place. This is a question regarding multi-channels; we would like to know multi challenges here. And Mackenzie's input and also the revenue on this and your payment options, prices and what is the breakdown regarding the most important, short-term events like Mother's Day and World Cup and also an update on the approval of Kadi [ph], and we know that part of this has already been solved, but what is happening in that space?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Well, let's start with your second question first. We have an agreement signed with Kadi last year to put with 39 stores, the important thing about these stores, they had been already disposed of. We are now concluding this discussion with Kadi, whether stores that has not been disposed of will be closed.

And this should have in the next two or three months, we will have further results, but then we will close the process and be at disperse of shops or -- shops. And thus we will have, because of this period, we don't expect anything else to come alone. This will go fine last year and we have a provision for the expenses, they are not representative. And this should be concluded in the next two or three months.

Now, regarding your first question, we had been developing initiatives in depth regarding multi-channels between the conventional and the online stores. We have not yet had any massive or mass initiatives, but we are betting on multi-channel formats to meet the consumer's new demands. Libano mentioned the online choice and offline purchases, etcetera.

So, these initiatives not only the click-and-collect, but of other operations as well that use the conventional world and the online world to meet the consumer's demand for the world together with knowledge that they have. We been trying to implement this service to meet this new client demand.

But the most important thing of all, is that today Via Varejo and Nova have competitive advantages to implement these initiatives that are difficult to be isolated because of the physical infrastructure of the stores or because of the distribution mechanism that we Via Varejo has all because of the strength that Nova Pontocom has in the online environment with the different panels.

So, we think that this initiative, so a very clear trend of the consumers in several countries of the world. So, this trend will become stronger in Brazil and I think we are very well positioned to take the opportunities which will stand from this.

Q - Unidentified Participant

Thank you, Vitor. But meanwhile, the price difference between those stores and the online stores is an item you don't want to live competitors as notwithstanding your presence on the e-commerce or conventional store.

So, you are seeing things by competition per channel right, and not among them?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

This is Libano. The answer is yes. The competition is more by channel but also it's important that the prices published in the conventional world and those in practice come the enterprise is closer to the e-commerce world then it might see. Because there's always negotiation possible and those negotiations also brings a higher margin, besides the commercial margin because of these services and opportunities for funding or for selling other products, for cross-selling that have the same margins or better margins. So there is assets for competitiveness per channel but also complementarity among the challenges. So we are working with the two levers.

Q - Unidentified Participant

Thank you Libano.

Operator

(inaudible) would like to ask a question.

Q - Unidentified Participant

Good morning, everyone. I have two questions; you talked about sales and categories. And maybe you could give us some color about the same-store sales curve for the foreseeable future in Q2; you have a very strong figure driven by TV set and smartphones. And there might be a deceleration in Q3; however, do you believe that in Q2, it will be higher than inflation or in line with inflation are lower than inflation.

So could you give us some color about the second and the third quarter?

Then the second question has to do with long-term margins. All the initiatives that you're putting in place at Via Varejo, they are inferred already and I would like to know where do you believe you can reach with these initiatives up to which extent can you go? And okay, so these are my two questions.

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

This is Vitor, thank you very much for your question. First regarding our sales, we expect to see a higher level of sales when compared to the average for the year in Q2 and Q4. In terms of categories in Q2, it would be technology that will be the highlight and it is already the highlight for Q2 and white line and furniture will be weaker this quarter. We have already seen and we see very often, during the quarter, we see some change in Q3 for instance.

FINAL

The white line category started -- came to a good start and also associated to the weather conditions that were favorable to this category. I think you remember that January and February, beginning of February were extremely hot and this drove the white lines very much. And then all of a sudden, we had a change in March already, so higher sales for mobile phones and etcetera and then TV sets for Q2 more technology, less white line and a change in Q3, and then we go back to a balanced position in Q4 regarding all these categories. The second and the fourth quarter will have stronger sales overall because that the strategy that I have already described to you. Now going to your second question.

We are already reaping the benefit from our optimization of expenses and many other initiatives. We do not work with the ceiling for our margins because there is still room to evolve this margin, beyond the level that we have delivered up to now and we will see this evolution over the year. But this kind of evolution or increase is associated to implementation of some strategic projects that Libano talked about and that we have already talked to you in some other occasions. And also the maintenance of an important balance between growth and return.

So the company is watching this very closely and we have been working on this very strongly. And it's important to maintain this kind of balance. Growth is important, and return of course will generate more value to our shareholders. So it's very important to check this growth in our margin over the year and what we can add to this margin through the strategic initiatives that will be having its results or their results in the next few months.

Q - Unidentified Participant

What about the medium and the long run? What do you believe is sustainable in terms of margins? 30% gross margin is a level that you mentioned today, at the EBITDA margin for the year maybe 9%. Could you please explain if you believe that 30% is already a sustainable level of gross margin for the next three, five, ten years? And in the case of the EBITDA margin, you're still achieving gains. And I would like to know if you believe that this could be sustainable around 10, 10.5 or 9.5 for the medium and the long run?

A - Vitor Faga de Almeida {BIO 16103413 <GO>}

No, it's very difficult to be more precise about this timeline. What I can say is that we feel comfortable with the levels of margins that we have been delivering so far, maybe because they are driven by structural changes and permanent changes carried out in the company, they are changes in processes, in the administration of our business and they are going to be perpetuated. So we're comfortable with this level of margins.

But when we talk about the longer run, there are initiatives of course, but it's very difficult to have a more clear picture about the levels of margins to be achieved. But we feel, totally comfortable with these levels. And I can tell you that they are sustainable, because they are driven by structural changes in the margin, which means that they will remain.

A - Libano Miranda Barroso {BIO 4670536 <GO>}

FINAL

This is Libano, just adding to what was said by Vitor. Our results for the first quarter confirm our commitments with the medium and the long run based on a lot of capital discipline and lot of investment discipline and growth with sustainability growing within other regions, and strengthening our presence where we already have a good footprint and the optimization of the logistics platform that is differentiated the logistics platform includes our expertise in choosing our sites and delivery and supply, our relationship with the industry, so that the industry may really participating to logistics chain and may have a win-win situation with us.

So all these processes bring about improvements and they improve overtime and scale was very important in our business. Scale in our businesses is to the surface of our clients, to the surface of our suppliers, so that we may transfer to prices when we are interested in evolving our sales and also working with the balance in our margins. So in the long run, we are committed with growth, with punctuality and profitability. And also targeting the Northeast and the Midwest for the medium and the long run and growing where we already have a strong platform.

Q - Unidentified Participant

Very clear. Thank you very much Libano. Thank you Vitor.

Operator

Via Varejo's conference call is closed. The Investor Relations department will remain at your disclosure to answer any further questions that you might have. Thank you very much for participating and have a very good afternoon.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.