Q1 2013 Earnings Call

Company Participants

- Abilio Diniz
- Alexandre Goncalves de Vasconcellos, Real Estate Business Director.
- Antonio Ramatis Fernandes Rodrigues, Vice President
- Belmiro Gomes, Wholesale Business Director and the Managing Director
- Christophe Hidalgo, Chief Financial Officer
- Daniela Sabbag, Investor Relations Officer
- Eneas Cesar Pestana Neto, Chief Executive Officer, Member of the Executive Board
- German Quiroga, Chief Executive Officer
- Gustavo Oliveira, Analyst
- Jose Roberto Coimbra Tambasco, Retail Business Vice President
- Vitor Faga de Almeida, Corporate Relations and Investor Relations Officer

Other Participants

- Andrea Teixeira, Analyst
- Fabio Monteiro, Analyst
- Nicole Inui, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for waiting. Welcome to the Grupo Pao de Acucar Conference Call to discuss the results of the first quarter of 2013. This event is also being broadcast via webcast and it can be accessed at www.grupopaodeacucar.com.br/ir.gpa and www.viavarejo.com.br/ir where you can find the respective presentations as well. The slide selection will be managed by you. There will be a replay facility for this call on the website after it's complete. We inform you that the company press releases are available at their investor relations website. This event is being recorded and all participants will be in listen-only mode during the company's presentation. Afterwards, there will be a question-and-answer session, when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call are be made under the Safe Harbor of the Security Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of GPA's management and information currently available through the company. Forward-looking statements are not guarantees our performance, because they involve risks, uncertainties and assumptions, as 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 Grupo Pao de Acucar and may cause results to differ materially from those expressed in such forward-looking statements.

Now I would now like to turn the floor over to Ms. Daniela Sabbag, the Investor Relations Officer of the company.

Daniela Sabbag {BIO 22210225 <GO>}

Good morning, everyone. Welcome to the first quarter of 2013 conference call of Grupo Pao de Acucar and today with us we have Abilio Diniz, Chairman of the Board; Eneas Pestana, CEO; Christophe Hidalgo, CFO, besides the main business officers of the Group. Now I would like to give the floor to Abilio for his opening remarks, and afterwards, he will continue with the results of the first quarter.

Abilio Diniz {BIO 1781457 <GO>}

Good morning, everyone. Another results conference call. This is Via Varejo Group. We are pleased with the figures that we have delivered and we believe that still the market should also consider them as very good. I have no doubt what so ever that Grupo Pao de Acucar will have again a good year. Our base is very solid, very consistent, so that we may continue to develop our growth, besides quite a few things that are happening and that play for our business. Of course, again pretty basic basket every time you have an unburdening of taxes and levels us with any other retail operation.

This is very important on this and also we believe that we will able to sell our meat in general in our stores and this will be an attraction as well for the sales of other products. Another important point that I would like to mention is the growth of Viavarejo, the consistency of the figures delivered, a better performance.

Ramatis Rodrigues is doing an excellent job, and the figures are the result of a very big endeavor of the project. I have no concerns whatsoever with the economic situation. This country will continue to grow, housing will continue to be built, housing units and housing units will always need furniture and appliances, and we're scattered throughout Brazil, and we're ready to continue selling. Besides, our integration between the physical world and the real world and the Internet continues, always improving on a consistent basis and we will be able to tap into the synergies between the physical world that is to say, the brick and mortar stores and the web. We will be placing one helping the other and vice versa and because of that, our results will become better and better gradually.

I would like to mention all the executives at Grupo Pao de Acucar and pay attribute to them for the good job done and for the results delivered.

Eneas Cesar Pestana Neto {BIO 7490067 <GO>}

Good morning, everyone. Thank you for participating in another Grupo Pao de Acucar conference call. I would like to talk about some highlights, and of course, the other members of the team will be focused specifically about their areas. And I would like to mention a few highlights that I consider very important. Along the same lines that Abilio shared, I think we should once again reinforce through, how satisfied and how proud I am with the team. They are true pros, that there are seasoned. They continue to work in a focused manner. They're very focused on each one of the businesses in a management model that is already consolidated in the last two and a half, three years and always having the client as the core of all these decisions that we make in the Grupo Pao de Acucar.

The results obtained are very good, the Q1 results let us grew 10.6%, Viavarejo 8.7% growth, which means the consolidated growth of 9.7. EBITDA also reflected good performance and the consolidated results of 11.2% growth, BRL862 million; GPA Food, BRL518 million, keeping the margin of last year, if we do not consider the non-recurring effect, a margin of 7.3%, and Viavarejo already working in this (inaudible) since last year in a consistent fashion as Abilio said, had an EBITDA margin of 5.7%, BRL345 million EBITDA, very consistent.

And of course, this is reflected on the net income, consolidated net income to 275 million, of which 176 million in food retail with almost 20% growth year-on-year and Viavarejo with BRL92 million [ph], which is a result six times bigger year over basis, very good results, and they're sustainable and they are based on efficiency gains and also for the strategy that kept it focused on the clients, and pleasing the client and charming or enchanting our client in each one of our businesses.

In the quarter, I would like to mention the restructuring that was done with the Viavarejo an in-depth review of processes and structures done in a very structural manner, seeking higher efficiency (inaudible) in order to increase the profitability and return on invested capital, always within the scenario of cultural change by the company, which is being implemented by Ramatis and by the team and here in food retail, Tambasco led the efforts, also in a very solid and in-depth fashion with renovation of processes and structure, a job that was done through last year -- for the last time in 2010, and it should be redone at every two or three years in order to guarantee that the process is more and more streamlined and (inaudible) with accountability with our focus on the competitiveness and increase the flow of supply and increase our market share. So, congratulation to Ramatis and Tambasco for the work they have done in this quarter, which certainly further strengthened us and prepares us to cope with challenges that we except not only for this year but next two years.

In terms of expansion, a very aggressive expansion. Never before in history of this company, we have grown so much in our sales area in the first quarter. Total CapEx BRL395 million, 63% growth on a year-on-year basis, which BRL215 million were also invested in new stores, which represents a 180% growth in our investment in new stores. 25 new stores during this quarter, we distribute for three Assai store, (inaudible) one gas station, one drug store and six new Casa Bahia. 28,000 new square meters of selling area for the project and concludes with the projects and if we consider the last 12 months the selling area grew 5.6% and non-food 6.2%. So we have 125 new stores in the last 12 months.

And I would like to highlight the Extra Market Place that was launched in early April, a very successful launch. This is the first Internet shopping market in the Brazilian Internet and we have more details about that afterwards. Just to give an idea, we had 120,000 items of assortments with the launch of this marketplace, we have 200,000 with the objective of reaching by the end of this year 600,000 items being served in our assortment via the web.

Another highlight, I would like to mention, with the approval by CADE of the transaction with Casas Bahia, approved on April 17th and the commitment was signed this month, (inaudible) February 2010, because of that we can now jump into synergies 100% with Via Varejo. They have already been captured in process of restructuring and how much is, of course, we'll be talking about that. In terms of indebtedness, we continue to have a very good indebtedness, we close to 1.1 times net to EBITDA, but also with more quality that is to stay with a more stretched debt profile, vis-a-vis, 1.5 we had last year.

And the news is that in Board of Directors' meeting that was held on the April 21st, we approved a new value according to our prepayment of dividends policy growing vis-a-vis last year at 18.2%. At this rate, we have 0.03 cents per share and 0.182 cents and payment will be made on May 16th referring to the first quarter.

And 2013 is an year in which we are very bullish in spite of the inflationary pressures that increase interest rate and we are very well prepared because we have loan indebtedness, our credit facilities are available to us and we have Viavarejo credit operation that is very healthy and that was the object of quite a lot work in order to reach very low delinquency ratio, so we have enough cash to be very (inaudible) and continue our work. Regarding the guidance that we will be talking about it in a few moments, we continue to be too optimistic as Abilio said, in total agreement with the measures taken by the company in terms of removal of taxes, not only regarding products and the projects that has basic basket of stable market and also mobile phones.

So, now I would like to close my remarks and once again I would like to thank you very much for participating in this call. And I reiterate my trust on our team and all the work that we will be doing together this year. I guarantee quite a lot of growth and good results for the company.

Now, I would like to give the floor to Christophe Hidalgo.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you very much, Eneas. Good morning, everyone. We would like to start the presentation. On the slide number two, we see that in the first quarter of the previous year, Group consolidated BRL14,984 billion [ph] or 9.7%, 14,984, growing 6.6%. Talking about same store sales EBITDA margin 6.4% increase, 6.4% that is the stable growth, was

11.2% on a yearly basis BRL862 million; net income BRL275 million in the period, growing about 60% with a 2.1% margin, sales margin.

Now moving to slide number three. You can see our indebtedness and our leveraging in the first quarter. We can see that the net debt was down from BRL4.85 billion to BRL4.17 billion, representing by the end of the period 1.1 time EBITDA of the last 12 months. Investments in the period was accelerated very significantly, reaching BRL395 million that is to say a growth higher than 63% year-on-year during the same period. The financial expense and net -- consolidated net financial expense went from 2.8% of net sales to 1.9% of our net sales that is to say BRL254 million in the period. And this downward trend is equivalent both to GPA Food and Non-Food.

Now let's go to slide number four, we see respectively the results of GPA Food and GPA Non-Food. Starting with GPA Food, Group sales BRL8.149 billion with a 10.6% increase or 6.4% same store sales. Gross margin was 25.3% [ph] about 9% growth. Operating expenses 18.4%, allowing us to capture 0.2 percentage point decline, representing BRL518 million with 7% EBITDA margin, 6.2% -- 6.3% [ph] growth on a year-on-year basis. As we said before, financial expenses 1.5% of net sales, a 24% strong or 0.6 percentage points in the period. The net income reached BRL176 million, 19.5% growth and 2.4% margin.

Now let's talk about Non-Food -- GPA Non-Food, from 8.6% in the period BRL6.8 billion with same-store sales growth indicating 6.8%. 9% growth in gross income. Operating expenses minus 0.7 percentage points, a growth of 6.3% in value. EBITDA 5.7% of net sales, BRL345 million with a growth of almost 20% in the period.

As we said before, financial expenses have an equivalent trend to GPA Food with a drop of 24.4% vis-a-vis previous period, 2.4% of sales and net income reaching almost BRL100 million, multiplied by almost 100 times during the first quarter of 2013 on a year-on-year basis.

Now going to slide number five, we talk about the acceleration of our assets with GPA Food. We have 19 new stores delivered, 12 Minimercado Extra, 3 Assai, 2 Extra Supermercado, 1 fuel station and 1 drugstore. At the end of the period, 934 stores, 1,600 square meters of selling area, an increase of 5.6% in the last 12 months.

And the growth of GPA Non-Food, we opened six stores of the Casas Bahia banner, especially, in the Northeast region of the country. And at the end of the period 968 stores and over 1,400 square meters of selling area. It grew in line with as of GPA Food 6.2% in the last 12 months, 1.4 million square meters. The period is also characterized by an important event (inaudible) the Extra.com.br which launched the marketplace and it allows us to double the assortment of items showed in our Extra.com.br's operation. And here we have the quantitative presentation of the first quarter and Tambasco will be talking about the outlook for 2013.

Jose Roberto Coimbra Tambasco {BIO 3635014 <GO>}

Good morning, everyone. Now let's talk a little bit about our focus for 2013 in food retail and including the supermarkets, hypermarkets and neighborhood stores. It will be focused especially on a few points that I would like to highlight to you. The first one has to do with the organic expansion as Eneas and Christophe have already said, it continues to be very strong. We started this year with laser inauguration and now it is very focused on all of the formats, but more specially with the neighborhood model with the mini-market, and this year we will be opening over 100 stores of this format. This is a format that has been delivered same-stores sales growth of two-digit, and this year we practically doubled the number of stores of this format.

Another important point I would like to reinforce this year it has to do with our exclusive brands. Grupo Pao de Acucar has already five private labels with the recent launch of the Finlandek private label, which is focused on non-food and the category shows bath and bedding articles. It represents already something close to 8% participation in the overall sales of the Group. And this has been giving us an advantage price wise and also quality wise, a very significant one and this year, we will be reinforcing this sector expecting to reach growth rates of about two-digits in the sales performance of these products. The third point has to do with reorganization of the retail structure in Retail Food and Eneas has already referred to that. We have implemented a new structure focused on the streamlining of processes and on the possibility of making the company lighter so to say and with a more agile decision-making process, always with a very clear focus on whatever has value to our clients and to our business.

This is an ongoing effort on our part. We've been doing this consistently, and we consider this as basic in order to guarantee the maximum efficiency and productivity with an ongoing resources for the competitiveness of each one of our stores.

And with that, we'll be reinforcing the basics of the company towards the sustainable growth. And also defining real growth with both gain of shares driven by the expansion process and the maintenance of EBITDA margin, higher than what was, to the majority, equal to 2012, higher than 8% in Food Retail.

So, this is the outcome for Food Retail this year and as Eneas and Abilio already said, we expect the growth with a very robust growth. Now, I would like to give the floor to Belmiro and he will continue with the presentation.

Belmiro Gomes {BIO 18107864 <GO>}

Good morning, everyone. At Assai, we were starting the year very much focused on executing our aggressive expansion plan to double the presence of the Assai brand in the states of Brazil, opening new states in the first and the second quarters. Definitely, contrary to the previous years, we decided to do this during the first quarter and second quarter. Between the first and the second quarter, Assai is already in Mato Grossco, we inaugurated our first store in Mato Grossco, Cuiaba also, the first in Alagoas, in Maceio.

Next week, we'll be opening our operations in Bahia and the next week in Parana and then Mato Grosso do Sul. These inaugurations have been bringing us an excellent sales performance during the first quarter on a year-on-year basis, grew by 26% and this strong growth demonstrate the performance of these new stores and same-store sales growing over two-digit, also an increase in the flow of (inaudible) stores. Comparing this to first quarter of 2012, we have 15% more operations. So we can see that there is a very strong growth in the existing stores and also a very strong acceptance of the Assai banners in the new areas.

With that increase in sales, increasing our share to 18% of GPA Food. And with this expansion, we should be opening from 12 to 15 stores in 2013, and will be closing the year more than 20% increase than the target for growth considering all these same-stores close to 40% which means that it's a very aggressive plan and we have been successful in the new areas and new locations in the Assai already existing stores very good performance and good results. And it's a very strong year for organic growth for Assai.

And obviously relative to major parts of our investments in first quarter, right now we have nine underway 130,000 to 140,000 square meters, this is very aggressive. And each one of the new stores with the new format has about 12,000 square meters of area and 6,000 square meters of selling area and usually the land is 30,000 square meters.

Some new areas, new stores, we will be delivering something like 90,000 square meters of selling area and about 150,000 of constructed area, which is being re-instituted in the new format of store and the new format. This is more same-store operation and thus far, we have (inaudible) format the selling and higher sales per square meter on value resulting into a better return for the company. So this is all. Now, I would like to give the floor over to Alexandre Vasconcellos.

Alexandre Goncalves de Vasconcellos

Good morning. I would like to talk about the real estate business. As we have said before, we have changed our way of generating our revenue and our place of work is the gross leasable area. And today, we have a total of 189,000 square meters of GLA. And the revenue coming from this as we have said gives us a good revenue. This year, we are working with an additional GLA of 35,000 square meters. And as this will be in two formats, the first is an expansion of the arcades of the hypermarkets. Today, we have a physical area from this format, which comes from the GLA at least similar to the one we have today; they'll be incorporated into new stores. So this in the 25 expansion projects will create 11,000 new areas, to be leased, 30% of our target.

The second format interrupt or disrupt of old format and constructed to a mall format. There are new layout formats with new facades, corridors, and new resource which will be strengthening the convenience in the context of one-stop shopping, more robust and much more adequate to (inaudible) and they will be more like malls where the clients and the new public could do their convenience shopping in a lighter way, relaxed, uncomplicated and fast. Besides, we will also expand the offer of food products. To make this possible, we will have five projects, which will be 24,000 square meters new areas of GLA, 70% of our target for this year.

And following this model, we're also working on for 2014 and 2015 models, new projects will have a great (inaudible) to expand this project and increase our GLA. Thank you. I would now like to ask Ramatis to take over now.

Antonio Ramatis Fernandes Rodrigues {BIO 17276918 <GO>}

Good morning. Talking about Viavarejo, our Viavarejo team is focused on reorganization of our management model. When I talk about reorganization of the management model, we are seeking most of all to guarantee that we have the right people in the right place and the right people or the right person is the one who delivers results and who keeps our values. So, we are strongly working on our management model keeping to or respecting our culture and (inaudible) with implementation of a review of the processes of the company. We are focusing on the improvement of the productivity and reducing expenses.

In terms of another important fact, which is focused on increasing sales and better productivity is to strengthening of the strategic position of Casas Bahia, where we are stepping up to the expansion, particularly our stores in Northeast of the country. And with all of these, which we're doing now in the first quarter, we would continue throughout the year. We continue to gain market share through a commercial [ph] communication strategy, which is much broader and very differentiated. We have made about some changes in our campaign and thus, we are able to bring in more clients to our stores, we are attracting more people, which is very differentiated actions among competition.

Another important focus is to review of the position of Pontofrio. We are making assortment more adequate, and the layout of the stores, so the Pontofrio's stores are more adequate to Pontofrio's client profile.

As Alexandre said regarding the CADE, we have signed the PCP, which is the performance agreement and with this, we have -- we released from the actual commitment and thus consequently, we have been able to (inaudible) on the synergies of the merger process. When we talk about synergies, we're talking most of all about the optimization of our logistical footprint and we're talking about better inventory management and also a review of our portfolio balance, which the Casas Bahia stores and Pontofrio.

Now I'd now like to ask Quiroga, who is going to talk about e-commerce.

German Quiroga {BIO 17954249 <GO>}

Good morning. And Nova Pontocom has had a good quarter, strengthened in the second half of February, and competitiveness increase, maintaining profitability year-on-year. It is possible we have been improving process which is still ongoing, but we are showing good results. And the highlight in the quarter was the initiation of the Market Place, as we mentioned, a good leverage for our assortment and increasing the profitability of our businesses.

We have tripled -- we have improved our assortment and doubled our items and the idea is to come to the end of the year with many more items. We have also many more employees, so which is the first shopping on the Internet and the market is also (inaudible). So you can confirm that the market with several emerging [ph] stores with one basket store and this gives you a very different shopping experience for our clients (inaudible) in the results that this is going to generate for our business. Preparing for the year, we will have an active growth in the market with a lot of profitability and cash generation, which will be (inaudible) differentiated value proposition and maintenance of service level above the average of the market and we will keep up our balance and competitiveness and price and substantial growth of our assortment.

And we are also increasing our business services for the marketplace with our platform and we are increasing efficiency and productivity, reviewing processes and we have (inaudible) logistics and concentrating at distribution centers and capturing synergies and marketing logistics and much more functional distributional centers. And you will see (inaudible) the states disrupted services and we have been met by GPA, another process initiative in mobility, which has generated results.

Another point here is our trainees program. We are doing this. This is also very good of Nova Pontocom and finally I would like remind you that the Nova Pontocom is now celebrating its second anniversary and this is Pontofrio, contested by it, selling more (inaudible) and now we have annual sales of 4 billion versus the service Globex in 2009 when it was bought by GPA.

And there has been no more employed capital and everything is based on cash generation. So we had 100 million of net cash. So it's a very healthy company, with good prospects for the future. Our vision from the beginning for Pontofrio, when it was launched that this is the best of electronic commerce in the country. Thank you.

Daniela Sabbag {BIO 22210225 <GO>}

Okay, we have one slide of the guidance, which we still haven't -- I am sorry, this slide has been crashed.

Eneas Cesar Pestana Neto {BIO 7490067 <GO>}

Well, thank you for everybody. We will respond to certain questions. I think we have been able to understand very clearly how much in each part of the businesses, the team is self-focused with incredible challenges ahead and all focus in terms of quick, agile structure, well balanced with responsibility, with clear growth targets, results, and all prepared with good management instruments and strengthened (inaudible) we've just implemented the management by cost center which gives us - -makes it easier to follow our targets and better management (inaudible) into a variable remuneration plans. And this gives us a better result from return of the (inaudible). This gives us a lot of confidence.

But this we (inaudible) team of high competence and this makes a big difference and it has allowed us to deliver consistent results. I must say before the guidance, also corporate level, we have reviewed the structure. We've maintained the matrix model as I've said in our business and closing the businesses. We had eight executives and one vice president now we have only three. We've reduced five executive directors at corporate level of the Group with the same line of (inaudible) gain agility, empowerment, simplicity, and very much more agility in decision-making process and bring about more empowerment to each one of the businesses of the team.

So, the three remaining that the CFO, Christophe, HR, I had the pleasure of announcing some time ago, Antonio Salvador, who will be joining us from the 13th, he's (inaudible) from HP, IBM, and very solid background, very robust background in Brazilian and international companies. I am very happy that he is going to come to us, I think he is going to help a lot and I'm very pleased personally to have him with me. And the third executive, I'm sorry, I missed somebody in the commercial area, there will be no conflicts on the businesses, the synergies will be captured, guaranteeing synergies as a group, compliances, and (Technical Difficulty).

On page eight, we have the guidance, as of the end of the year sales, would be above BRL63 billion, of which BRL34.5 billion, of above BRL28.5 billion. In terms of EBITDA, we must be very close, even a bit above 7.2% of EBITDA margin, 7.7% in the Food, even with the growth of Assai in this expansion process, which has been so brilliantly led by Belmiro and we will maintain a margin of 7.7% and (inaudible) and Non-Food, which we will view as retail and we will be about 6.2% of EBITDA margin.

And the financial result, according to the trend, Christophe mentioned we will have below 1.8%, and at Viavarejo and Nova below 2.9%, which will be in consolidated, below 2.3%, obviously, important movement in terms of the Selic rate and also what we believe it will be possible to keep this level of net financial expenses throughout the year.

In terms of CapEx in total, I'm not talking about openings, but besides the openings, we will have investments and talking about the infrastructure in IT and supply chain, and also the acquisition of store, we will have BRL1 billion in the Non-Food and BRL1 billion for Food and BRL 0.5 billion in Non-Food, and BRL2 billion to be invested this year.

With the expansion of investment cycle, as Belmiro mentioned, based on the Assai, I also wanted to convey the message to you, but I talked about the first quarter, we have a concern about our investment cycle to avoid concentration of investments, or the openings of stores, in the second half of the year, particularly in the last quarter. So with this, the expansion of square meters should be more than 6% this year and the Non-Food up to 2% to 3% at least, as Ramatis said, the focus at Viavarejo, particularly this year, is the gain of profitability through the expense reduction, through the structured work that is being done. Certainly, you will see an important growth of profitability in the Viavarejo's profitability. So we will close above 4% of total sales area of Grupo Pao de Acucar.

So with this, I have summarized the main areas and now, we will open the Q&A session.

Questions And Answers

Operator

Thank you. We will now go to our Q&A session. (Operator Instructions). Our first question comes from Fabio Monteiro from BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good morning. I would like to elaborate on the margin of Viavarejo. According to the guidance of 2013, you set above 6.6%. But in practice, I would like to understand what you see it could be the sort of margin range for the Viavarejo. And explain why. It seems a little conservative, perhaps we have a number in line near 6.7 for 2013, last year you closed at 6. And you had the improvements last year, which must be taken into account the new steps that taken because of the (inaudible) of the approval of the CADE. So what are points to -- so, I would like to understand a little bit more about this. Could you help us with the ceiling for the margin for 2013 more specifically? Thank you.

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

Well, Fabio, this is Faga. Thank you for your question. We are focusing, not just the synergies and reorganizing of the business. And now just recently after the agreement (inaudible) but we will also be capturing traditional synergies of logistics and operations, which we've not done because of the (inaudible). It's difficult to talk about the ceiling. We don't work internally with this ceiling. Obviously, we want to top as much as possible in many synergies in a very responsible way and in a sustainable way from the point of view of required results.

At this moment we are comfortable with this level of above 6.6%. This does not mean, we're going stop at that, but this is the level, which at this moment, we can signal to the market and once again, the more we manage to grow and in this process so much that also we'll be able to get make even still in 2013 more synergies.

And we will have synergies also which we are finding this year which do not have an impact on the result this year completely because they were happened throughout this year. So we have a carryover effect to 2014.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you. So just picking up on what you just said. I understand that in Viavarejo, the new point Nova Pontocom also sends the gross margin down due to the nature of the business, more competition, et cetera. So could you, perhaps, give me an idea of the prospects of outlook regarding the contribution of the marketplace throughout the time?

Perhaps this year, maybe you could give us some considerations but maybe for next year anyway. Could you help us to think about how marketplace can improve with the margin of the Nova and of the Viavarejo as a whole? Thank you.

A - German Quiroga {BIO 17954249 <GO>}

Thank you, Fabio. Well. First of all, the question of the marketplace and the impact regarding the Nova Viavarejo (inaudible) other hand, the market is very competitive, we have raised some investments throughout last year. Particularly, reviewing those assets improving competitiveness in terms of expansions, et cetera. And they allowed us to (inaudible) already to improve our competitiveness year-on-year, we had announced in a call last year that we would give priority to profitability that you have to close the year on positive terms, we have said that right from the start.

But for this, we have to have a very good third quarter to generate a reversal of the year-to-date. And we did that we started out the fourth quarter very well. But this was up until (inaudible) last year of this and now, this is only possible because we've improved significantly, so all our investments in aggressiveness -- commercial aggressiveness is being really rewarded and improvement of processes which gives us much better management of variable expenses. So, I think the percentages will be much better than they were last year for Viavarejo.

So, we're optimistic, we'll have better results in time, but for this year we have an outbreak of good contribution from Market Place. The business model allows us a positive flow of cash. So, we can control the payment from the main partners' services, and in cash flow, it's positive. And in profitability, we expect a difference in nature, but it is very interesting. So, this is one of the weapons that we are using and in Brazil, there are lot of market places, none is doing the consolidation that we're doing.

So we might capture more aggressively than the others this model of market place.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you. And one last question about the mini-market model. It seems that you have found the format that you're looking for and the assortment of, and how -- a bit about the maturity curve, and margin in the first year, and the margin of a mature store and potential. So, maybe you could elaborate on economics of the mini-market model.

A - Jose Roberto Coimbra Tambasco {BIO 3635014 <GO>}

Well, this is Jose Roberto. As you said, we're very comfortable with regard to the performance of these stores. These stores have a much quicker maturity than the conventional store model. In about a year, you begin to note a greater maturity. What has been favorable through this model also is that they have been maintaining the growth in two digits, even after the second and third year of operation.

The older stores, two-and-half years also continue to grow in two digits -- with two digits of growth (inaudible)now is to improve the profitability of the stores and for this, we're investing greatly in the way of supplying these stores and logistics. Therefore, we have already mentioned this to you in the past and we have the advantage and we have an advantage here improving much on in the profitability to bring greater efficiency in the delivery of better assortments for our clients.

Operator

Mrs. Andrea Teixeira from JP Morgan has a question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Congratulations on your results. And could you give us a more details about the mall, what could you add to the EBITDA? And in the investments, which you have made in Assai and I understand this could be good to consolidate the strategy also with the processes. Do you think this what we should extrapolate a bit as an opportunity within the GPA Food for other formats? Second question.

Third question is some synergies potential with Viavarejo, many of you talked about the positive results of this, but we should be put in that on the paper with the guidance. So I would like to understand this, since you've not talked about the increase in the area, how much that is impacted by the sales. And because of the CADE, I would like to understand also this guidance, also for synergy and also the timing?

A - Alexandre Goncalves de Vasconcellos

Well, I come to the reality area. There is a market of real estate works with different parts, different for the retail, we are working with an area of increasing the margin, the margin is about 80%, and what we will see in the next two or three years is we will grow in the GLA and we will control operating expenses to reach this ideal level.

A - Belmiro Gomes {BIO 18107864 <GO>}

This is Belmiro. I'm sorry. Could you reform your later question, I didn't understand it, please. I didn't hear it entirely regarding investment.

A - Daniela Sabbag {BIO 22210225 <GO>}

Mr. Belmiro is asking you to repeat this.

Operator

Mr. Gustavo Oliveira has a question.

A - Gustavo Oliveira {BIO 15129435 <GO>}

Excuse me. Good morning. The question also, just following up on those questions, which were not entirely replied. With regarding the investments, Belmiro, you're going to invest another formats and regarding Assai, do you -- I'd like to understand the dynamics of investment, if it was stronger in the new areas, in the new territories, which are you entering, or if it's going to be more generalized because you believe that greater competition in the cash and carry model as a whole, and do you believe that you will work with lower gross margins throughout the year and that these gross margins will recover as you're opening these new stores and they mature. So I think this is the question that I have about Assai.

A - Belmiro Gomes {BIO 18107864 <GO>}

Thank you. In fact, we did try to answer, but something happened. We had three openings at the beginning of the first quarter and two at the end of 2012. The cash and carry is by its nature marketing of the price, so obviously at the entry of Assai in new state, where it (inaudible), we commit more aggressively to win the space and so, this requires special way of progress in this sector and so this requires higher marketing, especially new openings. So we concentrated on the entry to new states at the beginning of the year, leaving to inaugurate in the second half of the year in other places, where the brand is already known, where we have a distribution system, where you have a lesser impact.

So it is natural to be more aggressive to begin with. When you observe the sales and (inaudible). So, if you have to invest in margin, we have to recover that, as the (inaudible) already mature stores, and the opening at the second half of the year whether that (inaudible) in already existing markets. And in these first stores are also basis for new branches in new states, where we already present for example Mato Grosso. We have just opened a branch and now we are starting to have customers. Second store will be opened in July or August with investments on new image, marketing and lower price.

And another point to highlight is that we had also significant improvements in expenses and those which we already -- in stores that we already have and at this moment that has a reduction of 0.2 percentage points.

A - Gustavo Oliveira {BIO 15129435 <GO>}

And when I'm work with your guidance, do you think it's fair to work with the margin of the year of 14.5% of gross margin. Do you think that this is a good number for the month -- this is what I've to work?

A - Belmiro Gomes {BIO 18107864 <GO>}

Yes, you can work with this number, even this year (inaudible) this number a little bit too above for the total of for the year. Thank you.

Operator

Ms. Andrea Teixeira, we would like to continue with your question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you very much and I'm sorry for the technical problem. The question has already been answered in part, Alexandre, the only thing that I would like to ask the question about to be more of the CMP sale of the merger with Viavarejo, that is to save a registration.

A - Alexandre Goncalves de Vasconcellos

This is Alexandre again. I was explaining that you follow the industry of shopping malls and you know that we work with EBITDA margins for rental of about 80% and we are working to deliver this margin for the next two or three years, we will be achieving this.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you. Once again with regard to my question, because once it represented 10% or 15% of the EBITDA of GPA Foods, will this be achieved in the short run or is it only for the long run?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Good morning, Andrea. This is Christophe. It's very difficult to compare with the success in economy. It's too early to talk about the exact anticipation of contribution of GPA Malls in the total retail operations. But given the margin that we work with and given the fact that we expect about 35,000 new square meters, the prospect is for a significant contribution to our EBITDA.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you.

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

Andrea, this is Vitor. About your question about the merger of the registration numbers that we have added in this merger of (inaudible) called CNPJ, this would bring benefits to the company since the operational stores going to the optimization and simplification of processes in our distribution centers (inaudible) betters use of our inventories, so we gave that already considering again the guidance that we have leveraged a while ago.

Q - Andrea Teixeira {BIO 1941397 <GO>}

The synergies are not included in the guidance. So you expect to have a higher synergies besides the same-store sales?

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

No. This is not included in the guidance. These effects are not considered in the guidance.

Q - Andrea Teixeira {BIO 1941397 <GO>}

But besides the sales of the stores, you do not consider any other synergies regarding the salaries or any other items. When do you expect the merger to (inaudible).

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

We are not expecting any kind of growth associated with this merger, because this merger has already occurred.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you.

Operator

Tobias Stingelin from Santander Bank [ph] would like to ask a question.

Q - Unidentified Participant

Good afternoon. I would like to understand what is happening to the same-store sales of non-food CBD, foods hypermarkets more specifically the performance was very negative in Q1. I would like to understand what we could expect as far as the gain from the restructuring, the streamlining of your management, this is just regarding management or does it have any impact on expenses? And what about deadlines for payments at Viavarejo? Interest rates (inaudible). So maybe parts of that will be delivered over the year. So what could you tell us about the deadline?

A - Jose Roberto Coimbra Tambasco {BIO 3635014 <GO>}

Tobias, this is Tambasco. I would like to talk about the performance of non-food in the hypermarkets. It's true. Hypermarkets (inaudible) over the first quarter, the performance was quite lower than the Viavarejo, in the market. There are some points in that. The first one we want elaborate that into one, we have performance as much as higher than the market last year that is on campaign and with the significant gain of share into one that we have, we grew about 15%. And why was this not maintained? Extra it has a very extensive participation in the office and video categories. They represent 50% of sales of Non-Food in the hypermarket.

Just to give you an idea, in the office category, we are seeing a significant migration of the sale from notebooks to tablets, something is lost here, about 13,000 notebooks that we sold less than we sold last year, and we sold more tablets bigger than last year, by about 15,000. In terms of units, there has been (inaudible), but the price is half as high for the notebook.

So, the average price of notebook was about BRL990 to BRL1,100, and we're selling tablets at an average price of BRL390 to BRL400. And this has represented a drop in our revenues.

In the TV categorization, this thing will happen, the shift for another technology, there is a price deflation here close to 20%. That has had a major impact on hypermarket. So what are we doing now? We are working to transform the sales in items with a more complete configuration increasing the average ticket for these categories, so that we will have gain in the revenue in reais and not on the numbers of items sold.

Regarding the restructuring part of your question, as Eneas Ceasar said at the beginning, we are already doing and this represents an ongoing one. Our objective is to simplify, to streamline our operation, to (inaudible) the decision-making process and any gains that we derive from this is reflected in gains and competitive price and everything that can improve the operation of the store. I'll turn it to Vito.

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

Tobias, this is Vitor. Answering your question about the payment (inaudible) in Q1 which was slight increase in the percentage of cash sales, a slight reduction in installment base and maintenance of our sales with cards, sales with credit cards, which originates our financial expenses, the average term was stable at around 7.5 times.

Now, it's important to stress that the modality there in terms of payment terms, one of the drivers of our (inaudible) there is little weaker of margins and sales as well as the sell in the beginning of the presentation. We have an implementing quite a lot of marketing actions. Now recently we had an extended array of possibility test on a weekly basis or every five days. We have the different strategy, one with more focus cash sales, lower prices and the other one, there is an installment sales or credit card installment. So these are some of the drivers that indicates about commercial area to deliver results. Also in the quarter, it is not so much changes in the raw materials but over the years we cannot expect to see any significant changes in the behavior of these three indicators.

Q - Unidentified Participant

Thank you, great. Thank you Vitor.

Operator

Ms. Nicole Inui from Merrill Lynch would like to ask a question.

Q - Nicole Inui {BIO 17757166 <GO>}

Good afternoon, everyone. I would like to go back to Viavarejo. Could you give us some color and quantify the synergies that we expect to capture in the Viavarejo, namely, the 60 basis points of margin increase, how much of this from portfolio and inventory or what? Could you break it our please?

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

These synergies concentrating initiatives at logistics, in IT, initiatives in back office and also the marketing area. And on an annualized basis, we're talking about synergies that represent before taxes, about BRL200 million to BRL250 million. A significant part of that is captured over this year, 0.6 percentage points and the carryover effect up to 2014. Essentially, this is a break down we can give you right now.

Q - Nicole Inui {BIO 17757166 <GO>}

Thank you.

Operator

Thank you very much. The Grupo Pao de Acucar's conference call is closed. The Investor Relations department of the Group is available to you to answer any questions that you might have. We would like to thank you very much for your participation and wish you a very good afternoon.