Q2 2013 Earnings Call

Company Participants

- Abilio Diniz, Chairman of the Board
- Daniela Sabbag, Investor Relations Director
- Eneas Pestana, Chief Executive Officer
- Unidentified Speaker
- Vitor Faga de Almeida, Chief Financial Officer and Investor Relations Officer

Other Participants

- Fabio Monteiro, Analyst
- Irma Sgarz, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for waiting. Welcome to Grupo Pao de Acucar's conference call to discuss the results for the second quarter of 2013. This event is also being webcasted via webcast, which can be accessed at www.grupo paodeacucar.com.br/ir/gpa and www.viavarejo.com.br/ir, where all of the presentation will be available. The slide selection will be managed by you. The replay of this event will be available right after it is concluded. We would like to inform you that the company's press releases are also available at the IR website. This event is being recorded and all participants will be in the listen-only mode during the company's presentation.

After GPA's remarks are completed, there will be a Q&A session, when further instructions will be provided. Should any participant need assistance during this call, please press star zero to reach the operator. Before proceeding, we would like to mention that any forward-looking statements that are being made and there is a safe-harbor of the Securities Litigation Reform Act of 1996, where forward-looking statements are based on the (inaudible) the recent assumptions of GPA management and on information currently available to the company

They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Grupo Pao de Acucar and therefore could reach results that differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the floor over to Mrs. Daniela Sabbag, Investor Relations, Director of the company.

Daniela Sabbag {BIO 18861490 <GO>}

Good morning and welcome to our conference call on the results for Q2 of 2013. Here with us is Abilio Diniz, Chairman of the Board; Eneas Pestana, CEO; Vitor Faga [ph], CFO and all of the other individuals responsible for the businesses of the Group. We will begin this presentation with some initial remarks from Mr. Diniz and next we will discuss the results for the second quarter.

Abilio Diniz {BIO 1781457 <GO>}

Good morning and thank you very much for participating in this event with us and once again the results of the company were excellent and sales are still growing despite the fact that we had a difficult first quarter, and there was some distress regarding the economy, it shows that during moment of prices, we were able to grow. The company is sound, it's firm, and very stable.

Sales continued to grow. Sales are growing in every single segment and business of the company and after (inaudible) issue is managed by Grupo Pao de Acucar, has already showed good volume in sales. And we are now experiencing synergies, we already experienced at the end of 2009, and this just reinstates the relevance of this business.

We also experienced growth in Assai. And I would like to congratulate Bill Medo [ph] for the excellent performance of that unit. Viavarejo, hold us to Don Bosco, I would like to thank you for expanding Minimercados or the mini markets; this is a very interesting model for our country and this model has been developed and tested for quite some time. We had other models that were used in the past, but this is indeed a very good model, which is the minimarket model. So congratulations and by the way congratulations to all of you for an excellent performance in this quarter.

So the crisis does not affect us. Despite the current crisis, we are not being affected by it, but I would just like to reinstate that we trust the country and we trust the current economy. I always said that, but I must say that, if the economy of this company found as sometimes people have those misleading idea or a more pessimistic view of the economy. I would just like to reinstate that this company believes in the country, we do believe in the economic forecast, we believe in the present and in our future. We are investing. We have not stopped investing, not a single moment. We will continue to invest very strongly, due to the fact that we trust the performance of the company and the leadership of the country. So having said that, thank you very much and let's proceed.

Eneas Pestana

Good morning, this is Eneas Pestana, thank you very much for joining us in this conference call. This is always a very important moment to us. You may not be able to see us, but there are many executives of the company present here today to -- and join -- we are here joining us in this effort also Daniela, who is doing an important work with that regard.

I would like to just endorse the remarks by Abilio Diniz. And with no further ado, I mean, I'll try to be quick because as we always like to do the entire team is here to talk to you and to clarify any possible doubts that you may have concerning the figures and the overall performance.

Well, talking about the economic landscape, I agree with Abilio. The first quarter was more challenging and now in the second quarter, the challenge is even greater. And this slide, this half year is stronger, the second half of the year is usually stronger because we have the holidays, et cetera. But considering the economic situation and the economic status, I think that in the second half of the year, we will have to face more challenges that I do believe that this country is working based on those fundamentals for those of you, they are older than 20 to 25 years of age.

You know that Brazil was experiencing a very special moment in history and therefore we have many reasons to believe that the consumer market will grow, the unemployment level is very low. And we see an emerging class looking for products with better added value, their basket of products is very articulated and very diversified into different brackets of society and the market is growing in the different regions of the country. Credit availability is also growing even in terms of the stock levels, everything is under control in our business. Brazil has a very robust and controlled financial system.

So the basics are here and the fundamentals are also here. But there will be challenges in the second half of the year. The economic growth of the country should be low. So there is also some inflationary pressure. And in the second quarter, there will be pressure on the food supply, but I think these are problems that will be resolved and we should be able to experience good growth in the second half of the year.

Increase in interest rates certainly causes an impact -- brings an impact to the business. But in terms of macro challenges in Brazil, is -- of the tax burden, which is still (inaudible) in the moments of crisis we try to resolve because we are a retail company and this applies to all of the other businessmen and the companies that are here. The challenges are here for everyone to experience.

But what I really want to share with you is that the company is very well prepared. The company is preparing itself for many years. We react in a timely fashion. We have long-term strategic plan. We define our strategies based on the consumer, the consumer of today and the consumer classes of tomorrow. So this is a multi business company, it's a company that operates in multiple regions. So we have a very clear strategic positioning, with clear brands and in my view without being arrogant. I think we are the most or the best company and the most prepared company to face the challenges. Because we place customers in the core of our decisions and through different channels, we are able to serve this customer in different moments of shopping.

Today, we have more demanding customers; they are quick, they are much better informed and also they want to be served in different moments of his life when he comes to shopping. Therefore it's important that we are a well prepared company in terms of presence and positioning to be able to serve customers whatever they are. So we are working in multichannel very strongly not only because of synergies, but back office and front office because we want to be present where the customer is and we want to have satisfied customers.

In general terms, as we said before in other conference calls, last year, we had a restructuring plan, which was very important for Via Varejo. And we also provided a very important restructuring plan when it comes to food stock retail. We already talked about that in our last call. This restructuring had different goals, but this can prepare us for a more challenging landscape. In addition, we have a strategic planning and a deal landscape or a deal outlook of our investment for the year, it is very clear to us how we must proceed in our strategic plan and how we will prepare our execution plan with a very well prepared and field team, a team consists of very confident individuals.

And the compensation system is based on meritocracy and this gives us an important contribution because as you have

fair strategy, building responsibility, well defined and a well prepared group based on meritocracy compensation. All of these factors contributed to the purpose [ph] the company. And more and more, we intensified this management model.

This guidance continues despite all of the challenges. We are prepared to go after the earnings of the year. So there is no change in the guidance for the year. (inaudible) with its team, they are doing an excellent job.

We started the year with a more difficult growth. We reviewed our pricing strategy, and the goal is sustainable growth, but at the same time, we have to be -- we have to also rise service level. (inaudible) is one of the best companies that this country has in terms of service level, in terms of number of complaints.

We never had problems. We never had any impediment in terms of the way we work. Therefore, our service is sustainable, low level of investments and now due to a balanced pricing strategy, in addition to a good marketing strategy, we were able to experience amazing growth rates. Their meeting is here, so I must congratulate you for all the work you did with your team. They were in charge of the entire restructuring of the model, and the model has proven to be very successful in terms of the financial strategy with good return rates, return rates that were way above the ones experienced in the past.

And now, we are also expanding the business. We are entering in seven new states. Therefore with just three in states, those who helped the company, and I will allow (inaudible) to talk more about it. Via Varejo is doing an excellent job, and it's started in the end of last year. And this year, the restructuring plan aims for profitability result, building size of our positioning with which has been acquired through several years. And we also saw some important things that are not affecting the company and anyway we are completely focusing on improving the service and improving the customer experience. So, the profile of the company is very sound, and together with (inaudible) they are conducting the business in a brilliant way. So, I'm very pleased with their work.

Also each of the product is conducting the businesses very well. They are able to sail through this very challenging moments through negotiation, through partnerships. And the challenge also in this restructuring also involves an important reduction in expenses; they are now concluding this phase. In foodstuff retail also we do not want to seek increases in profitability because this comes with gains in scale and volume, but the main goal is competitiveness and competition.

In a more challenging landscape, what plays an important role is competitiveness. We have to go after-market share, and in a moment of crisis, we have to be better. That's why this work that we're doing in the foodstuff retail aims at having a very healthy business with competitive margins in the entire mix without causing effects to our profitability. This will bring increased customer market share.

Alexandre is leading GPA Malls. We just had the inauguration of Conviva in Rio de Janeiro. It was an exceptional event. It was very good for all of the merchants, very good, and this just inaugurated different phase of the company, because we are now generating value by capturing gains in the real estate market. And when we created our own stores, we created traffic in the store and this has amazing EBITDA margins for merchants, for retailers.

Retailers are experiencing EBITDA margins of 40% to 45%, and this is what makes this GPA Malls business very good. Alexandre restructured the business. The team has excellent quality. He brought in experts from the real estate industry and that's why we are now capturing that value and this is the value that was not included in the value composition of the Pontofrio Group. The operating result was very good. This despite the impacts of Easter, which was negative in the second quarter of this year, because it was in 300 basis point. And if we look at the growth food and non-food per category, we are distributors of food.

We are the largest two distributors of this country. So it is important that you share with us the way -- a correct way of reading the numbers because more and more distribution channels make sense in a very macro and strategic plan and it's important that there is a distinction between food and non-food. So you will see 4.8 growth for food and as I said 300 basis points in growth. So that will be 7.8% growth for food in the second quarter and non-food, an excellent performance, 9.2%.

And all of that with a very challenging background and the company is prepared to grow based on gains through the competition. This puts us in a comfortable position, it's not easy, it's not simple, nobody is just sitting and waiting on the country. We are putting a lot of effort into making things happen.

The EBITDA growth in the second quarter, if you look on page four of this release, you have consolidated results. In the second quarter, the growth was 38% of EBITDA. The margin went from 5.8% to 7.8%. The EBITDA growth was 25%, growing from 6.8 of margin to -- growing to 6.8 margin.

I'd now like to highlight Assai and all of the other businesses, that I mentioned before. So we will fulfill our expansion plan for this year. If we do not fulfill it, there is a possibility of that not happening, due to delays in some sites and we always say here the important thing in the inauguration has to do with location and location is very important. Therefore we are constantly seeking for prime locations and maybe if there is any delays in this expansion plan, it's probably, due to the fact that we were not able to find fine locations and this is the number one assumption for our new stores.

In addition to that, we will try to fulfill our investment plan for this year. We will continue to invest and still believe in this country for the next few years. With this team that is here very engaged group based on tiered target with meritocracy with very good compensation to deliver what's on the table. This is part of our culture. So -- and now we are here to explain to clarify any possible questions or doubts. Thank you very much.

Unidentified Speaker

Good morning, everyone. Thank you Eneas. Now we're going into the presentation slide number two. The highlights of GPA consolidated, we show that in the period, we opened 33 new stores in the quarter, and 58 stores were opened with the sales area increase of 2.2%, in line with the guidance as earlier this year. We also highlight the growth in the food categories of 7.8% considering the Easter effect. The non-food categories grew by 9.3%, boosted by the progress of Viavarejo, both brick and mortar stores and e-commerce.

Adjusted EBITDA went up by 20.6% and GPA consolidated boosted by the gain of synergies and implementation of new processes and reduction of operating expenses particularly at Viavarejo. Net income, adjusted net income was up by 35.8% over this period owing to the operational development that we've mentioned combined with control over financial expenses.

We'd also highlight that in this period, we reported other operating income and expenses totaling R$ 350 million. We're talking about a one and only effect and this means transitioning for tax risks R$ 163 million, effects related to the association between Pontofrio and Casas Bahia R$ 67 million, restructuring expenses and results from fixed assets R$ 51 million, and provisions related to labor claims and others R$ 69 million. Therefore, a total of R$ 350 million over this period.

On the other hand, when we look at the outlook for the future, we see a very positive outlook, and we expect organic expansion to speed up in all formats, keeping on with policy of renovation and developments of shopping galleries, and our goal is to have an additional 35,000 square meters.

We also expect e-commerce to grow above the market. We will also adopt or go into the Minha Casa Melhor program. So as to boost furniture and home appliance sales, and we intend to continue capturing operational efficiency gains, particularly at Viavarejo, but in the group as a whole as well.

Now moving onto slide three. Let's look at the behavior of the main financial indicators of GPA consolidated. For the second quarter 2013, gross sales amounted to R$ 14.9 billion, that is up by 10.4% over the previous period. Excluding real estate project, this growth goes up to 11.2%. And same-store sales grew by 7.3%.

Adjusted EBITDA amounted to R$ 958 million, growing by 20.6%, and 37.6%, if we exclude real estate projects. Margin was at 7.2% of net sales. Adjusted net income grew by 35.8% in the period to R$ 327 million, would excluding real estate projects, the growth was 129.1% and the margin was 2.4% of net sales.

Debt indicators show that there was a continuous strengthening of the financial structure of the Group. Net debt amounted to 9.9 million in the end of June 2012 [ph] and it fell to 4.17 at the end of the first quarter of 2013. In terms of EBITDA, the debt amounted to 1.44 times EBITDA last year and now it is 1.16 times the EBITDA. We also see in slide three that despite the behavior of interest rates, there was a significant dilution of the net financial expenses, 2.2% of net sales and this is the consolidated view of GPA.

Now moving onto slide four, going into detail about the Faster store opening in the second quarter, we highlight the fact that 29 stores were opened in the second quarter, 23 Minimercado Extra, three Assai stores, two Pao de Acucar and one Drugstore. So at June 30, GPA Food had 962 stores, 1,614 square meters of sales area, 2.9% increase over the past six months. We also highlight under malls and properties, the opening of Conviva Americas in Rio de Janeiro, the Group's launch in the Neighborhood Malls segment. 12,500 square meters GLA anchored by Pao de Acucar store, with big retail chains and other 35 satellite stores.

Via Varejo inaugurated four Casas Bahia stores, particularly in the northeast of the country. In June 30, Via Varejo had 971 stores and sales area of 1,412 square meters that is up by 1.3% over the past six months.

Now moving on to slide five, I'd like to pass the floor to Don Bosco [ph] and Bill Medo [ph], they're going to talk about GPA Food and the main indicators we see a sales behavior with growth of 8.8%, nearly R$ 8 billion in the period. Adjusted EBITDA was R$ 512 million in that period with a 7% margin on net sales, that is 8.1% increase over the period.

The adjusted net profit was R$ 172 million in the period, up by 26.6% with adjusted margin of 2.4%. So here we have the main financial indicators. And I'm going to pass the floor to Don Bosco, who is going to talk about the highlights in the period, then Bill Medo will follow.

Good morning everyone, let's talk about retail and hypermarket, the second quarter to us was an extremely positive period as first half it was said. EBITDA grew by 5.2 percentage points and as a result of the efforts we've put to pursue greater efficiency as Eneas said.

And our purpose is that, sales tax represented 2.2% near the second quarter, will be invested to boost competitiveness and gain greater market share.

Now, it's important to mention something that Abilio and Eneas said about the Minimercado. Minimercado has proved to be an extremely predictive model because it has enabled us to grow not only as a result of our expansion drive in the second quarter, but also owing to the growth of stores, which are over one-year-old, that grow about 10% above the market, and, we feel an impact of seasonality. I'm talking about the Easter effects, which happened in the first quarter, and like Eneas said, it was 300 basis points that this could food growth to 7.8%.

And as a highlight, this is a strong growth that we've seen in perishable categories, particularly meat and poultry, where we've grown -- where our competitiveness has been proved. And this is owing to the cut-off federal taxes that happened in the first quarter that gave us greater competitiveness, and this is a category that has helped us grow.

And, I must also mention the performance of non-foods in the hyper markets. It is below the group's average as a whole. And then, Vitor is going to talk about (inaudible) but hypermarkets have a peculiarity that is their sales is very much concentrated in categories that suffers greatly from price deflation and owing to the migration of certain items that we've mentioned that is notebooks migrating to tablet sales, and Via Varejo has very strong participation in this category.

This performance is partly offset by the growth in telephony where we see the opposite effect with growth in smartphone sales. And here, Extra conventional stores have benefited. Our expectation is that we will continue to charge the good expenses and increase the competitiveness of our store models. We do not see a significant change in consumers' behavior apart from this migration of projects. So that they can have a more economical solution to their needs. And, we want to provide them with the best assortment possible.

On the other hand, as regards to price, we suffered greater pressure on commodities in the second quarter. There was a significant increase in price. And we already feel that these prices are leveling off. In some cases there was a reduction, which leads us to that inflation rate will level off and will not impact our business in a significant way.

Now I'd like to pass the floor to de Bill Medo. He is going to talk about Assai and (inaudible) disposal for any other clarifications you need thank you very much.

Thank you, good morning, like Abilio and Eneas said, the focus of Assai in the second quarter was organic growth. Our growth in the second quarter was 37.5, are just listed by these organic expansion and the same-stores growth above double-digit. We moved up 31.8%. Our focus in the second quarter -- in the third quarter will be to open new stores in new states to guarantee integration process. Over the past two months, we moved from six to 12 building in the states, we inaugurated the first stores in Alagoas, Paraiba, Mato Grosso do Sul, Bahia and Parana.

Therefore over the period, we opened more than 48,000 square meters of sales area and 19,000 of GLA. And it was part of our expansion strategy to concentrate these stores in these new states and each store requires investments in marketing and to announce the SIE [ph] brand but they paved a way for new units to be set up relationship with suppliers and it creates relationship with consumers. We have another eight units under construction in states for Assai that's already prevalent.

These new openings will have a greater impact boosted especially by the support that these existing stores will provide, and these eight units will be inaugurated in the second half year of 2013.

As I said, net revenue moved up to 37.5, GLA moved up by 26.5% with the creation of new stores expenses fell by 0.1% and EBITDA moved up by 4.6%, and when we see expenses have fallen by 10%, and we closed with 32% increase in sales, expenses was 29.6%, and EBITDA 29.6%.

And with this performance, Assai has become the group's third most successful business. For the second half-year, we are very optimistic. We will continue moving on with organic expansion and will find it easier to open the stores. And along with that, we will see the stores that were opened in the first half-year are maturing, and this gives us greater confidence. We are working hard. The team is working hard with ambitious target, and we expect Assai to grow by 40% in 2015.

Thank you very much. I will now pass the floor to Vitor Faga of Via Varejo.

Vitor Faga de Almeida {BIO 16103413 <GO>}

Good morning everyone. We are going to talk about the segments of electronic equipment.

In slide six, it's important for us to see a few key indicators particularly related to gross sales. There was a significant growth throughout 2013, and looking at the outlook for the second half-year, we expect a growth of 14.2%, which represents nearly 12% under the same-store sales concept. Adjusted EBITDA also moved up; now 7.4% margin for a gain of more than 300 basis points, and the EBITDA of the company nearly doubled within the period.

And lastly, adjusted net profit around 155 million gives us adjusted net margin of 2.6%, also with very significant growth in the period. Now looking more into specifically at the bricks-and-mortar stores under Via Varejo, it's important to say that the segment is faring very well with very galvanized teams and people focusing on capture of synergies planned and looking more specifically at strategic guidelines that were laid down.

Sales are growing satisfactorily, particularly same store sales grew by 9.5% and total stores around 12%. And as a consequence, we see a very sound economic and financial performance. I think a very important highlight for the expansion of EBITDA margin where we have the gain of more than 13 percentage points. Especially from two sources, from the growth of the gross margin owing to better management and logistics management and many logistic costs have an impact on gross margin, and also owing to the reduction that we've had 1.5 percentage points in expenses as a percentage of sales, which shows us that we are in these capturing greater synergies and streamlining a number of areas either in marketing, IT, and also personnel.

Looking at the company, it's important to highlight that we are focusing on organic growth. This company expect us to grow in regions that have a great value potential in here as we've mentioned in this call, in the North East, we are opening new stores in the North East and also we are repositioning the Ponto Frio brand. This is important because it will enable the company to break into other markets and to attract other consumer segments. And from now on, we will be able to leverage our sales levels as well.

And lastly looking ahead, talking about our outlook for the second half year and 2014, it's important to say that the company will keep on capitalizing on the gains from the productivity plan. There are number of initiatives that are under implementation that will bring in additional gains to the project and the company's focus is to be closer to consumers, closer to clients, seeking to meet not only their current demand for services, but also trying to predict the trends -- the future trends for these consumers, looking ahead, looking at future demands in terms of what the consumers will want.

And it's important to mention the Minha Casa Melhor government program, which will present us with yet another opportunity to capture value very well as regards bricks and mortar stores, these are the most important highlights, and now (inaudible) is going to talk about Nova Pontocom or NPC.

Unidentified Speaker

Good morning everyone. Nova Pontocom reported growth of 26% in the quarter, highest rate, which reflects the maturity of a number of initiatives that we started to improve, particularly in supply and pricing. The combination of prices and categories, better margin mix, maintenance of differentiated service, and higher operating efficiency enabled us to have a much better performance with growth of 30% in June, which had a positive bottom line. I'd like to reinforce that we intend to grow above the market with balanced cash flow and profitability.

In terms of prospective outlook, we are trying to reduce our operating costs and optimize our fixed costs. We are creating differentiators for our clients. We are developing new businesses and partnerships, including the launch of marketplace. And lastly but not least, initiatives to attract and develop talents in the company.

And lastly, I'd like to highlight that once again our website -- Diamond by the E-bit, and it was elected, "The Most Loved Website" by consumers. And this will reinforce or commitment to sustainable growth without risking at any moment, service level to our clients.

These were my comments. Thanks you very much. I'll now pass the floor to Alexandre Vasconcellos to talk about GPA Malls.

Questions And Answers

Operator

In fact, now we start our Q&A. Now, we would like to open the floor for questions. (Operator Instructions) Our first question comes from Fabio Monteiro from BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good morning. I have question about Via Varejo. I would like to talk about two particular points. One refers to organic growth. We've heard from SEADE and also IBGE figures that home appliances are not performing so well when compared to other retail segments? And we also want to understand whether you're being -- of share -- your gains are coming from any particular region of the country or in your view it's coming from other small or focal point. And also still talking about Via Varejo, my question is to the EBITDA margin of the operation, which was 7.4% in the second quarter.

Do you believe, I mean, how much more if you grow in terms of all the improvements that are being implemented?

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

Thank you. Fabio, here is Vitor Faga, thank you for your question. In terms of your first comment, we did have a very positive sales performance in the second quarter. And as a consequence, and this was the result of two major factors. Number one, an assertive marketing positioning that affected three events in the second half of the year -- in the first half of the year, Mother's Day, Valentine's Day, The Confederations Cup. So for every single event, we had a very particular strategy concerning lines of product and also we introduced new payment format. So the results from these three campaigns were very positive for these three different lines of products.

In addition, we do not have I mean all of the figures from the sophistical agencies that cover this industry. But in our view, there were gains of share during that period, during all of these events, and due to all the marketing campaigns, because these products are linked to these marketing campaigns. It is also important to say that categories such as home appliances or telephones, these are the categories that presented higher growth, even higher than what we had expected.

In terms of the EBITDA margin, we already noticed the impact of several initiatives that were implemented by the company and over the last few months starting at the end of 2012. There are few initiatives that are in the process of being implemented. So we believe that we'll be able to see the results of all of them by the end of the second half of the year and we will be able to operate with expenses over net income below 22% which is what we had in the second quarter.

Now in terms of the gross margin, this will certainly depend on how the market will behave and we will also begin on the products that we will focus on in the next few quarters. And then this will have an impact on the EBITDA performance. But we are very comfortable because we will meet the guidance, which is to have EBITDA margin for the year higher than 6.6%. That's what we told the market during the call of the first Q.

Q - Fabio Monteiro {BIO 3711690 <GO>}

I only have one last question about the other operating expenses. And you gave us more details on explanatory notes 30 from Grupo Pao de Acucar. Despite the fact that most expenses were non-cash expenses. I would like to hear your feedback about the provision for tax risk 163 million for tees and cuisine factors and that became very likely, I just want to understand whether this risk can be materialized on the short and mid-range or whether you could tell us anything about that risk that was provisioned by the company?

This is (inaudible) Via Varejo. I want to learn more about KPMG's work that you mentioned in that note the potential fractional in amounts of around R$ 174 million related to Via Varejo. And I just want to know whether there is any particular timing for that even though it is non-cash, I just want to learn more about the risk of not collecting these amounts or having any risk of tax losses. Thank you.

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

About your comment on Via Varejo, we posted 71 million referring to these adjustments. These are adjustments to our balance sheet. There is no impact to our cash position and the company is now evaluating some possible effects of that related to reimbursement. Now I'll give the floor to (inaudible) who will talk about GPA.

A - Unidentified Speaker

Good morning. Concerning that contingency, there -- it's -- that went from likely to possible. In the second quarter, we ran some evaluations together with our consultants related to risk for 2014. And we modified the qualification of that risk regarding the fact that maybe this risk could become cash effect. So we understand that first of all, we still have some room for discussion, we still have some room to discuss it further until this risk becomes cash.

And we also have the possibility of thinking that in case this risk becomes a reality or if it becomes cash, we hope that does not materialize in the short period of time. So in concrete terms, there should not have a short-term cash effect. But we understand that this price effect at this risk is bolstered in the category of probable, we still have some grounds to defend the topic, very prudent.

Q - Fabio Monteiro {BIO 3711690 <GO>}

So you believe that there will be more provisions or maybe other indemnisation liabilities in the next quarters or you think that in this quarter, this already reflects the majority of the risks that you see ahead?

A - Unidentified Speaker

We are operating this business with a lot of responsibility. So now to say that there will not be any additional risk, we will be probably wrong. But now, we are thinking of the necessary measures to limit this kind of situation, managing the business in a very responsible way. It's not that the situation is unpredictable and we cannot say no, but as more risks become more material, we will communicate it to the market, but the status for today and what is reflected in our financial results contemplates our own rating and also the rating from our consultants. So the answer is today, the risk for probable is being accounted for us to really reflect the reality.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you. Thank you, both of you.

Operator

(inaudible) from JPMorgan has the next question.

Q - Unidentified Participant

Good morning and congratulations for all of your operating results. In fact, I have two questions. And I would just like to when -- what you said, you talk about the growth increased to offset something about the growing of -- the opening of new stores or organic growth. And also you talked about inflation in food stuffs. How can we think in terms of the growth of same-store sales for the second half of the year, as you -- how do you think that we should think in terms of non-foods?

A - Eneas Pestana

From the comments that I've heard from Vitor, there will be a reduction of marketing expenses and this reduction in marketing expenses that we cannot see too clearly, maybe we could say that this can be weighted as you have already reached a higher margin going compared with that 6.6 margins. So maybe he will pay off to delay your marketing expenditures and we will still see market share gains grow further.

A - Unidentified Speaker

For super and hypermarket, we do not envision any strong movements towards pricing features, but we have to look at inflation, why don't we measure our internal inflation, it's slightly lower than what we see in the market today. And we believe that some industries that put pressure on the prices, such as fruits and vegetables should not occur any more, but now with the pressure from the dollar, some categories may feel more pressure on their prices, but we don't see any major cause for changes in the scenario.

So, we do believe that we will continue to grow above the inflation even in the same-store concept. We do not see any particularly situation that would deviate us from our guidance that has established earlier this year.

Andre, now it's Bill Medo.Go ahead.

Just adding to what Don Bosco, said, we felt some inflationary pressures early this year, but the consumer market is self-regulating, therefore we do not believe that giving the parent landscape this will generate impact on sales in the second half of the year. So I'm talking on the wholesale side and we are also benefiting from increases in logistics prices and we are also making door-to-door delivery and our work is being more facilitated. It just reinstates that the work that we do as distributors.

So in the first quarter, we had same-store sales way above inflation and the outlook given the increase in customer presence and throughout the year, we will see same-store sales above inflation -- performing above inflation.

In the home appliance business, there -- it's pretty firm for us to give you a more precise outlook about sales in the second half of the year even because the second half of the year is more impacted by the holidays at the end of the year, but we see a growing trend of sales, very similar to what we experienced in the first half of the year.

In the second half of the year, we will see a stronger growth. But now concerning marketing expenses, we are able to optimize marketing expenses, and that is being accomplished through number one, more efficiency in our advertising scheduling and also because we have good marketing assistance and good marketing company in terms of consumers, I mean I don't think that I mean the market is being impacted by marketing initiatives.

But currently, we believe that it's not necessary especially when we look at production, sales, margins and marketing expenses in terms of producing more sales. Currently, any increases in marketing will not generate additional value about what boosts sales. Increases in marketing expenses or marketing initiatives would not give us the expected return and therefore, we do not intend to go through that route, but through this optimization process, we hope to have in the next coming months a lower level of expenses associated to that lag.

Q - Unidentified Participant

Very good. And can you tell me about the new leadership of Via Varejo and what will be the timing of the follow on?

A - Unidentified Speaker

About the IPO, all we have to say, we already said it to the market so there is nothing new about that.

A - Eneas Pestana

Andre, this is Eneas, good morning. About your last question, the process is running smoothly, I am doing that together with Salvador our Human Resources VP. This has been a very smooth process with most impact as I said before. We will do that -- there is no problem because we have a very good team of experts, which is doing a very assertive job. He is following the strategic plan in a very efficient way together with (inaudible) and the others that are part of the team.

Therefore there is no reason for us to do things in a reverse fashion. We are being very demanding and very careful. I don't think it will take very long, because today this company is capable of attracting good executives and other professionals in the market. So there are people interested in talking to us. They want to understand further, but again we are going -- we are being very demanding, but at the same time very calm because we want to do things right with the right people.

So it's difficult for me to tell you anything else. The timing is also necessary. Timing for us to be sure that we are doing things the right way with right person that will be there to give us more contributions and to work well with the team that is there with the goal of pursuing better results and better performance because this is how we always do things in this company. We work with teams. We work as a team, so the teams invariably are working hard, the results are presented in a very sound way. Okay.

Q - Unidentified Participant

Alright. Thank you very much Eneas for all of the detailed answers.

Operator

(Operator Instructions) (inaudible) from Santander has the next question.

Q - Unidentified Participant

Good Morning. First of all, I would like to know about expenses related to Via Varejo, not only a provision or tax adjustment, I'd just like to know whether you -- there is anything else to be known or whether the balance sheet is clean and all the adjustments that we had to made when the company was created or concluded.

And the second question is concerning the gross margin, the expansion of gross margin surprise me, they are high in the last quarter. In the last quarter, it was even higher. This assertiveness, do you believe that he will continue to pursue that same path and you will be able to have gross margin similar to that of this quarter. And still connecting this question to a great question. G&A came down in Via Varejo and sales expenses were up vis-a-vis your debt expensed.

So, in fact will be -- we haven't even seen any drops in marketing expenses and that's when we should expect differences in the next quarter? Thanks.

A - Eneas Pestana

Sandra, first part of the question, what we can say, at the moment, I'm going to quote (inaudible). What we can at the moment, I can tell you is that all the impacts that we have are reflected. We have no other impact that we can predict. Obviously, they should be factor again if this was the case.

As regards to your question about selling expenses, it is true that SG&A fell a lot about 30% and sales expenses grew as a function of sales growth, also because selling expense are associated with expenses at the store and there is a significant valuable component that also to the sales team work from a commission and usually these are large teams.

So, we have a very strong correlation between these items. Sales growth and sales at growth of sales expenses.

Q - Unidentified Participant

Is it possible that we will see the expenses fall in the coming months?

A - Unidentified Speaker

Yes, it's possible, but it's very difficult to state that they will. And lastly as regard gross profit, gross profit depends a lot on sales mix. Our mix is very diversified. We have different margins and we depend on the market component, which is very important in this equation. We are very comfortable. We have an operation. Gross profit is around 28% specifically during the quarter, 28.7%, but this depends heavily on the market behavior and how demand growth whereas the various categories of project. So it's really difficult to predict how gross profit will behave, but we are comfortable operating at 28% and plus.

Q - Unidentified Participant

Thank you very much, just a follow-up. Now, it's about marketing expenses, where is the bulk of these expenses? Where does it fall. And what line of the balance sheet is together with sales. So is it reasonable, what I'm saying that in practice perhaps we haven't seen the bulk. You just said that the marketing expense is very well sized out?

A - Unidentified Speaker

But what we see is the opposite, suggesting that you have a lot of facts to grow in March with better impact on the bottom line. Well it is possible, if this will happen, but it's difficult to quantify now today and give you a clear outlook.

Q - Unidentified Participant

Thank you very much. I'd like to understand that if you could repeat because the about more significant gross margin, there's still lots of pressure. And I believe that in the fourth quarter this will change, but could you talk a little bit about what happened in the quarter and what the company did to be able to boost performance of the site?

A - Unidentified Speaker

Good morning (inaudible). Well we can summarize that over the past quarter, Nova Pontocom repositioned website charges and categories. We tried to maximize the elasticity of each categories in each of the three websites. And what I said in the beginning about -- pricing is true. We also moved on and two very important points that helped us in sales performance.

First of all, there was an (inaudible) which is very important because there is a greater participation in the long tail. And also the lack of concentration in regions, so in the bricks and mortar world, we are increasing our shares owing from the Sao Paulo via route, strictly in the North East. The regress in competitiveness is relevant. Our growth resulted not only from greater effort, but also greater conversion.

Q - Unidentified Participant

Thank you very much.

A - Unidentified Speaker

And we believe that the outlook review remained for the third quarter. We started very well still above the average on the second quarter.

Q - Unidentified Participant

Wonderful. Thank you very much.

Operator

Mrs. Irma Sgarz from Goldman Sachs would like to ask a question.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. I'd like to ask about working capital as we have the issue because there was a significant increase. The term to pay suppliers, to inter-maintaining each city, then can we believe that this will be the new level that we should adopt from now on? Could you explain that and then I'll have another question about Assai.

A - Unidentified Speaker

Thank you very much Irma. Yes, we've been working hard with suppliers, but not only with suppliers, but also within company persons to optimize working capital within the company. And yes, we can expect this inventory level from now on particularly connected to -- talking about suppliers, there was also significant term risk and we can consider this new level, about our size.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you. I'm sorry. My question is, in the initial comment, in the initial remarks, I'd like you to confirm the targets this year is to grow 40%. I don't know whether, I understood this correctly?

A - Unidentified Speaker

Yes, the target for 2013 is to grow 40% in the second quarter, 37.5. This will include from the first quarter 32%, besides government reported to be open. Now in the beginning of the second half year (inaudible), we opened a store; it was one of the best inaugurations that we had. There is another one which is nearing completion. And also, the maturity all the system stores leads us to believe that we will be able to grow by 40% in 2013.

Q - Unidentified Participant

Thank you very much. And now for the future you said that operating expenses will fall below 10% according to -- as the new stores mature now. About the gross margin, as you grow into these states and prices should we expect, where you will work in a level around 15% or more than 15% and in 2014 or 2015 and related to that the EBITDA margin that could be above 5.5%. Where these two changes OpEx falling below 10% and gross margin moving back to historic levels?

A - Unidentified Speaker

Every time we open a store in recent day, we have to invest in marketing and staff training, et cetera. These strategies that we're using was exactly to get a foothold and pave the way for other stores to be opened. So that it doesn't pressure so much for margin and expenses.

Our purpose is that total expenses will be around 10% obviously this scenario may change and obviously the longer the stores are in this state, the greater the possibilities that will adapt the mix to the regional suppliers and we will be able to capture an increase in margin.

Q - Unidentified Participant

Is there a EBITDA margin that you're working with over the medium term?

A - Unidentified Speaker

Always up -- upward, the purpose is to increase it invariably, continuously as the market allows and as the team works for it. But our purpose is always to increase it.

Q - Unidentified Participant

Thank you.

Operator

(Operator Instructions) Mr. Aldo Cardoso from Banco Santo would like to ask a question.

Q - Unidentified Participant

Good afternoon everyone, I've got two questions. First one about (inaudible). Can you share with us, if you feel an impact of adopting the program in view of addition?

A - Daniela Sabbag {BIO 18861490 <GO>}

Hi, this is Sabbag. In fact, the program is very incipient. This is a program where the government will provide its added facility to the beneficiaries of Minha Casa Melhor. So they started distributing this trod and we will only feel the impact of the sales on the business as of August. In July, we sell something, but it will only be after August that we were actually noticed whether the program is helping sales.

Q - Unidentified Participant

Great. My second question is about discount of receivables. In the second quarter, expenses moved up by 15.4%, your gross revenue was up 14% and comparing quarters, there was a drop in the average selling interest rates. So why didn't you have a reduction in discounted receivables this quarter, when compared with the previous quarter or with the quarter in 2012?

A - Unidentified Speaker

Thank you very much all those for those questions. Very good questions. We've had an increase in discounted receivables particularly in credit card receivables. And I'm talking about relative increase and revenue grew by 14% and discount grew above that. In fact, there are three sectors that match to this result.

First of all, the growth in sales volume, as you've mentioned because it is important to see that in the second quarter of 2012, revenue was around 5 million. Regarding the subordinate part of credit, this lowers the comfortable base so there is a three percentage points of difference and we've had an increase of 0.2 months and the average term in the comparison between this period and same period last year, which is around 3, 3.5. Obviously, so there was a difference in the average payment term and this is why we saw the discounted receivables to grow. But if you exclude the other effects, it's not to the tune of what we see without thinking about the factors.

Q - Unidentified Participant

Thank you very much.

Operator

At request on just conference call is closed and the investor relations department of the group is available to answer your questions. Thank you very much and have a nice day.