Q2 2021 Earnings Call

Company Participants

- Anderson Barres Castilho, Director of Operations
- Belmiro De Figueiredo Gomes, Chief Executive Officer
- Daniela Sabbag Papa, Chief Financial and Administrative Officer
- Gabrielle Helu, Investor Relations Officer
- Jean-Charles Henri Naouri, Chairman of the Board
- Ronaldo Iabrudi Dos Santos Pereira, Vice Chairman of the Board

Other Participants

- Analyst
- Andrew Ruben
- Danniela Eiger
- Irma Sgarz
- Joseph Giordano
- Rob Ford

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to the teleconference for Earnings in the Second Quarter of 2021 of Assai Atacadista. I want to highlight that if you need translation, we have this resource available on the platform. In order to do so please select the interpretation button through the globe icon in the bottom right side of your screen and choose the language you prefer, Portuguese or English.

Relation that can be used by pressing the interpretation button represented by the globe icon on the bottom right corner of the screen and choose English option.

I would like to let you know that this earnings call is being recorded and will be provided on the IR website of the company where you already have the earnings release. During the presentation of the company, all of the participants will have their microphones enabled, and after that we'll begin the session with questions-and-answers.

For questions, please select the icon Q&A on the bottom part of your screen, write your name, company and language to get into the queue. As you are activated, you'll have a request to open up your microphone on the screen, and then you should activate it to be able to submit your questions. We'd like to ask you to please submit your questions for once and for all. And we would like to say that the information provided and possible declarations that could be made during the video conference related to the prospects for the business, forecasts, and operational and financial targets of Assai represent beliefs and assumptions of the company's management as well as the current information available.

Future discussions are not insurance of performance, they involve risks, uncertainties and assumptions, because they refer to future events. And that rely on circumstances that may or not occur. Investors must believe and understand that general economic conditions, market conditions and operational aspects could affect the future performance of Assai and lead to materially different results than what have been presented in the future forecasts.

Now I'm going to pass on the word to Gabrielle Helu, the IR Director at Assai.

Gabrielle Helu

Good morning, everyone. Ladies and gentlemen thank you for your participation at the earnings call for the second quarter of 2021 at Assai. Our objective today is to talk to our own executives to understand our operational better and the result in this quarter.

I would like to introduce the participants that are present, we have been Belmiro Gomes, our CEO; Daniela Sabbag, Our Financial Director; Ronaldo, our VP for Logistics and Commerce; and Anderson Castilho, our VP of Operations.

Before we begin this operation, I would like to pass on the word to Belmiro for his initial considerations.

Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Thank you, Gabby. Thank you, everyone for participating today with us in this earnings call. The objective like earlier mentioned is really to go over some of the main highlights, but also talk about the scenario that we faced in the second quarter from the operational perspective, and economically, as well as the results that you already had access to in the release that was published.

The environment in the second semester is still very challenging due to the restrictions imposed by the pandemic restrictive measures that our VP is going to highlight as well up ahead. But in our vision, we had a, once again a strong quarter from the perspective of store operations as well as sales operations. It was a second quarter in our vision was very strong. Thanks to the team's work and the involvement of our over 51,000 employees that helped us reach this milestone in the second quarter, and that gives us the possibility to once again present very solid results and that are very consistent and all going as Assai had been delivering in the last years.

The net revenue goes over BRL10 billion, almost BRL11 billion in gross sales. The adjusted EBITDA from BRL793 million and it's important to highlight that in this second quarter the company recognized a volume of BRL63 million from Supreme Court decision on the exclusion of the ICMS tax from the calculation based for PIS and COFINS tax. So, all of the numbers we are going to show you throughout the presentation are going to show you the numbers with the inclusion of the fiscal credit, but also the operational numbers where they do not interfere in this fiscal credit for this BRL40 million were added to the net revenue, and BRL21 million or BRL22 million in the financial income.

So, this is important to show you the consistency in the operational performance, margins, expenses and other results, because although the fiscal credit is non-recurrent due to coming from other years when we monitor daily with this operational performance sequentially in the first quarter compared to the second quarter, and also related to the last year because the operation really intends to perform the sale then competitive advantages in the operational performance of the stores are not based on special tax regime, their special tax benefits.

The net income is really a highlight for the second quarter with BRL305 million in the net income, which is an important progress compared to the previous year and also an indicator that we've been really focusing on which is the ratio between the debt level at Assai. And our financial director will be able to get into more details about up ahead.

On the next slide now, we reached the level of BRL10 billion for the first time in net sale and this represents a strong growth, not only as we take a look at 2020 and 2021, because last year and this year we also have the effects of the pandemic that are not equal from one quarter to another. The pandemic has proven to have different behaviors, obviously the situation 2021 is not compared to 2020. But, when we take a look at the evolution throughout 2019, there's significant growth in revenues 54%. So the sales go from BRL6.5 billion to BRL10 billion.

And the growth in the second quarter really is in line with the growth of the actual semester. One semester we got 52% -- sorry, 22% CAGR, which also represents 52% compared to the first semester of 2019. And now, I just wanted to go over some margin and Mr.Daniela talk about the evolution in our margins in this quarter.

Daniela Sabbag Papa {BIO 22210225 <GO>}

Good morning everyone. Ladies and gentlemen it's a pleasure to be here with you. Well, I think instead of talking about the numbers, I'm going to talk about the reasons for justification for this robust margin delivery in the second quarter of 2021. The main reasons I think were really related to the increase in the share of B2C customers in our stores. And another important project we've done in the second quarter to fight product ruptures, which is really led by the commercial teams and operational teams and logistics teams as well.

This proved to be a very positive result in our stores. Something else that we have also been talking about and practice is really adjusting our assortment for each region in the country, which has been a differential and we're really into monitoring this trend and even with this shift in the customer mix, which gives us an opportunity to improve our assortment even more so that we can have a more precise delivery. In line with this, we also strongly had the contribution of our expansion that was -- to Assai.

The quick maturing of these stores that were opened in the past 12 months, which also contributed to help us have strong growth in margin. And this quarter, we had a strong special sale calendar with many special efforts and campaigns, but I want to highlight a few that I believe were fundamental to deliver these results, which was the Easter campaign, Mother's Day campaign, (inaudible), which is our regional traditional party in the Northeast. So all of these campaigns were able to help us convert this into sales and margin in the stores. And along with this there may be a question about the increase in the margin, but we weekly meet all of our Brazilian, all the regions were present to monitor the levels of our competitiveness.

So, although there was a central increment in the margin if you compare to 2019 and 2020, we can maintain the competitive advantage levels and precision as well in our business in line with this issue and I'd just like to ratify this competitive issue also seeing will kept in the ideal levels we believe in for our business is share gains. So according to Nielsen, we had a share gain in the same-store sale base, which was very robust and this contributes and reinforces our precise successful strategy. And finally, when we take a look at the gross margin, as you can see on the screen, we added on BRL350 million in margins in this quarter with a growth of 26% if you compared to the second quarter 2020, even a little higher than the actual sales volume.

And I think this leads us to an excellent result for all of the efforts with the assortment competitive issues and activations and campaigns in the stores. So, I think the end of the quarter very successfully, before pass on the word to VP of Operations. And there I just wanted to thank all of our team, and especially our commercial and logistical departments. I want to thank all of my team for their performance, dedication, and real strong engagements, not only in this first quarter, but also in this long journey we've been going through.

Thank you so much, and I'll pass on the word to Anderson. Thank you.

Anderson Barres Castilho {BIO 22210220 <GO>}

Thank you, Belmiro. Good morning, everyone. Well, taking a look at the slide here, we saw an operational vision, we can see a reduction of 10b, allocating the COVID 2020 expenses to give you more of a comparable vision. I want to take a look at the scenario, you can see strong discipline from operational team and our storefront team, where this is very clear. And in our G&A, and we always mention this as important highlight in our G&A, working low cost, controlling expenses. This is a team effort with our store managers, and all the teams really daily monitoring this and controlling this, so we can really ensure the efficiency of operations, reducing expenses. And also in the speed and quality of our customer services.

We cannot forget that we're still in the pandemic here and when we compare it with the same period last year, what changes compared to last year is that, okay, we have some lessons learned, but we're still controlling entries, and we still have people that are at home, because they're pregnant and also other expenses was controlled with hand sanitizer, and controlling temperature, et cetera. So all of these processes still go on. What we have as a shift in some regions where we have a restriction in store operating hours. Last year we didn't have this. We had all these procedures where we didn't have some stores that had closing periods. So now we still have a group of stores that are being infected with reduced operating hours as the vaccine evolved. This is being reduced.

But Assai is present 23 states and 113 cities which gives us a huge responsibility, but also the team has a strong evolution and speed to really adjust to each region and municipal government. There we can really provide the best services. So we've noticed especially in this end of June period with a response -- with a recovery of the small businesses. So we've seen an improvement due to this period where the greater activities growing with a light improvement but of course this is always something you always carefully look at because we have some more restrictions in some regions still, some regions have more, others have less, but this really makes our team very active and prepared to adjust to these different realities.

In this quarter, we had three store openings are very important. And as we continue with this expansion plan between 2022 and 2025, more stores this year. This is part of our strategy and our business normally in the second semester we have a bigger amount of stores open. So the team's prepared and trained and has a capacity for this as I mentioned. So we can work quickly in the regions strong manner. So this really demonstrates this gain and efficiency and the reduction of expenses and controlling our expense.

Activities opening up many different cities at the same time. We have a big challenge, but our team has a capacity in the necessary conditions to deliver, and to do the necessary work. So, I also want to mention that, the whole team has been very active, Assai is when we really sum up many different areas and departments, and our team really makes a difference. I want to highlight the store teams that have been working and delivering these results with our customers directly, so we can be safe, and has a necessary comfort to deliver our best day-to-day with low cost of services, good quality, a good product assortment. That's all we're searching for day-to-day for our customers and for our team.

So now, I want to pass on the word to Belmiro, our CEO. Sir, you can continue this presentation.

Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Thank you, Daniela; thank you, Anderson. Well the EBITDA we highlighted in the beginning had an important advance significantly compared to the previous year, and excluding the fiscal credits had an evolution of 30 bps goes from 7.2% in the post-IFRS16 to 7.5% now in 2021, a good amount of this highlighted by the middle comes from the team's work overall controlling and disciplining the margins and farming strategy expense control as well, which has been really precise and successful on this is helped us overcome the pandemic period with businesses that still have their activities compromise and part of our target audience not present in the stores yet. But I'll tell you still been able to go through all of this with solid gains in sales and results. And it is visible in the evolution of the sales and the EBITDA and also in the in the net income.

Also, I want to highlight that there was a major relevant contribution within the numbers, not only in this quarter, but also in the first quarter as well. And the new store openings and the network of stores throughout 2020 also was very successful with the huge sales ramp-up that even quicker than what we had forecasted initially. And especially, in regard to maturity and result from the perspective of the margins and expenses, this store network was really important for the results in the first and second quarter.

So we can have the numbers that you're seeing in the screen, showing a real evolution of the EBITDA margin, 64% in the next -- in the last two years, and it's stability in this growth in the first quarter, and also the second quarter now. It's relevant growth of over 27%. We can move on. So consequently the net income of the company in our vision is the main highlight and the second quarter was major evolution for the quarter and we of course exclude the fixed goal of credit impact with an evolution of 40% compared to the previous year in this period.

Last year, we had a stronger evolution of prices with an inflationary behavior as well, but it's also causing impact throughout 2020, and especially the second semester, and now throughout the first semester as well of 2021, with an inflation pressure and some price categories value stream. And what we've noticed is a stability in the second quarter of the prices compared to the first quarter with the levelled price increase in many categories. So, we realize that we've basically reached the limit of our consumers' pockets can handle, and there's not much more room for new price increases that what we've noticed in the second quarter was noticed some different trends in different categories, like the commodities, and still have high prices, but they lost a bit of strength and these price increases.

But other categories, for example, beef, are now going up through some price peaks as well. Now, we've noticed the trade down in the market from the end-consumers with the channels, trade down of the channel, which has benefited us -- and the sector we operated, but also trade down within the actual product categories, and some categories suffering a bigger effect this than others. So, of course, all the work done by our team really helps us deliver net income, that's extremely positive in this first semester, and this net income increase goes over 80%, which proves the culture that company, our business model and our store opening strategy, the focus of the organic expansion and how these different efforts have been very precise is a strategy is experiencing.

Now, moving on to the next slide. Danny is going to talk about the leverage issue and debt which is a topic that we have been working on daily. Danny our financial director will be able to get into more details about this.

Daniela Sabbag Papa {BIO 22210225 <GO>}

Thank you Belmiro, good morning everyone. Well, continuing here with the presentation and on slide -- moving on to the next slide, we're going to talk about our financial `results and expenses that reached BRL145 million in this quarter. And we always take a look at this number. Of course, excluding the interest on the leasing, so the expense related to the net debt was a total of 66 -- BRL76 million. So this is 0.8% of our revenue and a reduction that can be compared to the second quarter.

And this semester this gain is more significant, right? We had an improvement compared to the first semester of 2020. So this result is a consequence just once again to remind you that we've been reducing our debt due to the cash generation of the company. And in last year, we actually paid for the first amount of our debentures issued and the gain really reflects us. So the DDI on average per year compared to each year is very similar and so the gains are really resulting from the lower volume of debt.

But I just want to remind you that in these results, these earnings as Belmiro mentioned, we have a positive effect of BRL22 million from a monetary update of credits, tax credits that we've recognized and registered. But even without these tax credits, we would still have a significant reduction in our financial expenses of 0.3 percentage points in the semester. So, if we take a look at the second quarter, the worst thing about 10b, but it's very small, compared to the full result in the semester. And when we consider the increase in the interest rate, we have really been highlighted this issue with you, and I want to reinforce this as well. But we do expect that there'll be a financial result of about 1.8% of the revenue. Obviously, this increase in the CDI interest rate, generates an increment in the financial expenses.

However, we have within this process already renegotiated important issues and then we're moving on to the next slide as well. And I wanted to also discuss this a bit, we have been continuing this deleveraging process with the year upon year has an improvement of about almost BRL400 million, our net debt-to-EBITDA ratio was 1.9x EBITDA, which is way below the levels we saw last year of 2.7. So we had an improvement of 0.8 in the EBITDA. And we have occasional increase in the gross debt in this quarter because in May, we had the second issuance of debentures which had the objective of really just pre-paying the second installment of the first issuance of the debentures that we made, which is going to mature now in August of BRL1.8 billion.

And what we've been working on, really with their treasury department, is very much to take advantage of these market operations and opportunities in our objectives is to prepay these debentures that had a higher cost and the market through the offering good opportunity for this. So we're going to be issuing BRL1.5 billion in the quarter and NP of BRL2.5 billion. And this is going to allow for the fundraising that we need to address the maturities in 2022 and 2023. And really important point is that we're extending the profile of our debt to two years, all the way to four-and-a-half years and with an interest rate that's a lowest than this first issuance. So we're talking about CDI plus one-and-a-half and then you fundraising efforts we've been working on in June, we're going to have a position as CDI for us 2.3.

So, just to say, it's always increases in the CDI interest rate. We have been also really been able to renegotiate our debt cost. So finally, I think I just wanted to highlight once again the healthy and comfortable position of the company with debt situation, excellent operational performance that really helps us in this process to improve the debt profile and reduce this indicator from 1.9x net-debt-to-EBITDA, although it's very comfortable for us. And we're going to continue with this deleveraging effort this year and the next years as well, due to the strong cash generation at Assai.

So I'll pass on the word once again to Belmiro. So now, Belmiro will talk about ESG a bit.

Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Great. Thank you, Danny. So, this is obviously a topic that's more relevant. And we are bringing some of our main efforts, Assai had strong awareness of our growth where the society as an important agent for transformation. And so, some efforts that we've done in the second quarter with a target of over 30% reduction of carbon emissions until 2025, so we have a lot of different ESG topics now that I really connected to variable compensation of the level of management in the company's about 5% of the variable compensation, include these indicators, such as -- also an increase in recycling, waste disposal to landfills and all of these other factors that are considered in our indicators and intend to provide a fair and just work environment. But also work towards equality, and gender, racial equality.

And we have over 25% women taking on leadership position 65% of our employees consider themselves as black or colored. And in this quarter, will tell the possibility to start a partnership with TransEmprego. We also were able to adhere to one of the forms in the LGBTQ forum for companies and rights. And so this is something we really work on inside our company, we also have quota with people with disabilities who have over 5.2% of our employees that have some kind of a level of disabilities, which demonstrates that the inclusion in work we expect and diversity really are part of our DNA and really part of the culture of the company.

And as you move ahead to the next slide, we really highlight some prospect from what we're imagining up ahead for the third and fourth quarter. Assai is really an engine for growth and this driver has been organic expansion. And so we have a huge challenge to Assai, and in second semester we are going to be launching about 22 to 25 new units, we have 25 construction site analysis at the moment split in different states and brings also just so we can have an idea in the past 12 months. We added a 100,000 square meters until there is about 350,000 square meters of build area. And the objective are organic and inorganic pension plan is to build about a 150,000 of square meters, until there it's an over 0.5 million square meters of built areas. And this scenario in the construction sector has also been challenged.

The supply chain for construction has been very pressured with steel costs and there is a real challenge in the construction, and this is also made it more challenging, but our team is very engaged and dedicated. So, this requires important efforts with planning, building, and setting up these stores and launching these new units that are all on different states start being built in the North (inaudible) and so on.

So, Assai really has a strong mission to continue this expansion for the 19 units that were opened in 2020. Should this year be delivering about BRL20 million transaction to over BRL40 million people are going to go through the Assai stores and Assai will continue the strong growth engine with a main focus on organic growth. I also want to highlight this third and fourth quarter that besides this calendar with store openings and expectations for new units is also a major expectation that with the advances in vaccination we could do scenario with a lower level restrictions where important customers that are in very important sectors that are really affected that are Assai customers can resume their activities and consequently resume their purchases.

So we really have a positive recovery expectation in the post-pandemic scenario, bars, restaurants, snack bars, buffets, school cafeteria. There's a huge sector that currently have their activities interrupted or strongly restricted, which keep them from supplying and purchasing these items. So, our objective with the commercial strategy team has really been to maintain these consumers that are searching for lower costs and prices, which is -- these guys will continue to be very faithful to this channel, once they see the opportunity to really check the difference in prices, and even the quality of the services. And so we expect them to continue even here.

So, we plan to keep these new customers that came during the pandemic, and really add on new small businesses that weren't able to come due to their restrictions. So, we're expecting about 6% to 7% of total sales volume being affected or harmed due to the pandemic affect currently. And of course, this really relies on how the vaccination advances and the pandemic behavior within the company. But there's an expectation not only Assai team, but in the overall market, that we should be positive effects now on the second -- in the third quarter and also the beginning of the fourth quarter.

Other very important projects that are under progress at this moment with e-commerce and now the beginning of the third quarter we also for the partnership with partner shop and in this third quarter that customers will be able to buy online from Assai, but of course we're very much focused on the physical stores, but we have many digitalization effort to commerce projects and even delivery wholesale services, which should be starting in the second quarter -- in the second semester sorry or the or the next year.

So, before we get into Q&A, I just want to, once again, thank all of our teams effort, 51,000 employees were among the 10 biggest private employers in Brazil. We have an expectation to invest over BRL1.6 billion, opening of these new units, and generating over 8,000 job opportunities. With this, we also play an important role, generating jobs, and increasing the level of competition in many cities. And who wins in the scenario is always the consumer and the customer, which is the result of a joint effort with many different departments and teams, which even in this a moment of the pandemic has really been dedicated to those and really have helped us build this beautiful story that has now continued in 2021. So that's it for today. Thank you all so much. Now we'll get into Q&A.

Jean-Charles Henri Naouri {BIO 1472000 <GO>}

Thank you, Belmiro. Well, before we start the Q&A, I just wanted to remind you that we have called our shareholders for general assembly is going to happen on August 11, and all the documentation necessary to participate is available on our IR website. So, now we can move on to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

So now we're going to begin the Q&A session. (Operator Instructions) And so, our first question comes from (inaudible) from Itau in Portuguese. So, George, we're going to open up your mic now, so that you can submit your question. Please, you may continue.

Q - Analyst

Hi there. I think you guys can hear me well. Well, clearly, you guys are one of the only food retailers that are really capable of maintaining profitability and really expand even more in the second quarter, which is very impressive. But I want to understand the following. Do you guys feel that with the market, maybe not seeing the same tailwind last year? Do you think that the competitive environment is more like a special sales? Is there some kind of a notorious dynamic change in the market? And the second question you guys mentioned now and you have 6 percentage point or 7 percentage point possibly top-line additionally? And it's an area where the transformational sector maybe operating in level that's similar to 2019. Do you imagine if this becomes a reality this should lead to some kind of a profitability dynamic shift, which I believe this is a huge highlight compared to what you guys did in the second quarter. So those are my questions. Thank you guys.

A - Daniela Sabbag Papa {BIO 22210225 <GO>}

Thank you, George. Thank you for your question. The competitive environment as you mentioned also is always going to be competitive and it's always been like this, right, and a good amount of this margin improvement is really connected to a Belmiro mentioned (inaudible) differentiation efforts. And we've been preparing for this with more participation from the end consumer, which also helped us improve the margins, but there's a lot of policies and dynamic that the company implemented that really ensured this that have a relevant weight in the performance. So, when you take a look at the participation of the expansion depending on the level of marketing that we operate in the new store, you have effect in the results, and there's of course improved good amount of these improvements about 0.20 bps that come from this improvement in the maturity of the store network than we had in previous years.

So the expectation that we'll have more store openings of course in the company can have more special sales. This could bring out a bit more competitive environment, but on the other hand, if there's some kind of a restriction, as Anderson mentioned, we still have a lot of stores impacted with the amount of customers allowed. So, we have the biggest amount of sales per square meter but also the customers per square meter. So we also expect a positive effect from consumers in regards to small businesses coming back due to the mechanics in the pricing will bring some kind of a dilution in the margin potential but it is comes in, it also helps us dilute some of the percentage of expenses. So we are expecting a stability in the margins compared to the second semester last year.

Even in this scenario which reopening the economy, this is what we're looking at in our commercial policy and price level towards our suppliers etcetera. So we're very confident about the strategy to maintain the margin that's based on opportunities to keep this kind of expansion in the margins, this will be done obviously. But at this moment, what we've been mentioning is the maintenance of the margins. I hope that answer the question.

Q - Analyst

Thank you for the questions, and congratulations on that quarter.

Operator

The next question comes from (inaudible) Citibank in Portuguese. We will open up your mic, so that you can submit your question. Please you may go.

Q - Analyst

Hi, there. Good morning, everyone. Thank you for this call and for taking my question. Belmiro, I'm sorry to insist on this topic about competition, but I think it would be important to consider when you take a look at the network of stores and the existing construction work, there's a lot concentrated still in the interior of the City of Sao Paulo. Your sales are still concentrated a lot in the Southeast, and we've noticed that there are many regional players in this region announcing a significant investment and store expansion. So, could you maybe talk about this dynamic in a competitive environment? When you look at the network of stores and the existing expansion in these regions that are so important that would be really useful.

On the second point if possible, really cover this expansion issue when you consider these sales composition with the expansion the relevance of the credit card purchases. So could you maybe talk about this, was the dynamic a bit abnormal in this quarter, with the delta compared to the second quarter of 2020, because the second quarter of 2020 was very different and very typical with a pandemic? Or do you consider that credit cards are getting more relevance? And if possible, how can this impact your working capital? These are the two points. Thanks, guys.

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Thank you for the question. Well, our card access to the fact, last year, let's remember that the Corona Voucher allowed us to increase the volume of sales in cash or the Corona Voucher, which is a little greater than last year. So now we're going to notice the difference in the composition in the second quarter, compared to last year, and even stronger in the third quarter, where the Corona Voucher is at a level higher than what is currently and also the amount of beneficiaries.

So if you noticed part of the customers migrated a bit of Corona Voucher which this, and now when you have a big -- smaller level of income. Unfortunately the overall population so then of course they use credit cards a bit more, but as you consider the working capital, we don't consider that it could in some way impact our cash situation, because the company actually (inaudible) the receivables, it's not something that we're going to necessarily need to do due to the cash that we're maintaining as Danny mentioned. But the store location is just obviously competitive environments are very dynamic and they change in different regions, right? So, Assai has about less than 50% of our sales being done in the Southeast, the rest is already in other regions and we done the expansion of the stores with you.

And we intends to reinforce our presence not only in the Southeast but also we are expanding our presence in states where we have operations that where there's still room for more story. So this year we should be opening our second unit important value our third unit in my knowledge, two other units in billing, and other one under construction that is seeing, and another unit also (inaudible) other unit in Pernambuco, another unit expected in about year. So we are really distributor. Well, we've noticed in regards to competitiveness is really that you have some trends that are not the same from one region to the next. But obviously, some player for example could have more of a pressure on margins, but they're not going to hope this kind of level competitiveness for such a long time.

But how are you going to see the diversity in the store network allows us to offset some of the margins and really deliver the results that you're seeing today. So, of course, competitive environments are always something extremely important. Another important point also is that, the network of stores in 2020 and a bit of the network of stores in 2021 intends to increase our presence where the Assai brands already present and well known. What we see is that we have a better level of margin produced cost than marketing expenses. We scale up the suppliers, we have logistical gains, also when we have the third or fourth store in the region. But on the other hand, we also are affected by our own internal cannibalization. So the good network of 2020 had excellent performance, but maybe about 1.5 point to sales in the other stores, which is expected in our own expansion organic profits.

So consumers are now migrant to the store that's closest, not going to go to farther unit. But for example, enforces value. Now we have one unit there, we're going to open up a second unit on the other side of the city, so a lot of the businesses on the other side of the city already buy in the first stores, so naturally there'll be some kind of this migration or cannibalization and we've always expected when we consider our forecast for each unit. I hope I've answered your question.

Q - Analyst

Thank you, Belmiro, it's very clear.

Operator

The next question comes from Danniela Eiger from XP in Portuguese.

Q - Danniela Eiger {BIO 20250080 <GO>}

(Foreign Language) (Multiple Speakers) -- more focused on keeping this organic expansion trend?

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

So, thank you, Daniela. Yeah, the company is always looking at this, we have an area selected for M&A, but obviously we always perform a comparison between what you have and the right, grew organic expansion. So of course with organic expansion we have some issues with timing and a maturity but of course you can choose the best part, so that's another positive point and this has been a fundamental cornerstone for our performance. So priority is going to be the organic expansion. But that doesn't mean, we're completely closed off the M&A opportunities.

We always monitor this scenario and this may happen, but our priority will always be organic, and if inorganic expansion comes, it'll always be complementary. So we've been working with about over 25%, we had some acquisitions in the market with some company. Maybe, when you compare the acquire, they compare their again expansion with acquisitions and then the maybe in this case the decision has been maybe more advantageous with each company's policies, but we don't have our ears closed to any of these opportunities.

It could happen, of course. Obviously, as we grow and we placed more stores in different states, so we also create an overlap in a lot of companies, even the regional one. And this overlap can be some kind of an issue in this transaction, but it is possible if it makes sense to the company and the shareholder, you can be sure it'll be done. From the new initiatives, we have some aspects of this project, so of course, we'll have to wait for a few more details with distribution in the wholesale is also being advancing along but also with the advantage in pandemic and challenges, we've had really make us focus on the building new stores this year with wholesale of services, self-service wholesale, and this should be happening in the next year.

One with digitalization, we have this first partnership with partner shop, and when we talk about the B2B target audience are already have an internal chain, channel that we're restructuring, and we see strong a potential for this. With B2C as I mentioned also another opportunity we have seen this already happened as overall chain. And now Assai has its own units, and we consider that we have big opportunities now in the second semester as well.

Q - Analyst

Thank you so much, and congratulation for the semester.

Operator

So now, the next question comes from Irma Sgarz from Goldman Sachs in Portuguese. Irma, we're going to open up your microphone, so that you can submit your question. You may continue.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay. Thank you very much, and congratulations for the results. One question about the same-store sales that you mentioned, which obviously were very strong once again, but when we take a look at the inflation it seems that it's a little behind the inflation of what we've noticed in the second quarter. So, I don't know -- I know that this is not translated in the inflation you've guys are noticing, but I would like to know how this composition of the same-store sales was considered, when you guys take a look at the numbers compared to the second and the pricing? And how you consider this evolution in the next quarter?

And how you're considering the future pressures on the pricing? And on the other hand, how the volume has been evolving with everything that's going on with the re-openings and also with a lower Corona Vouchers, pressure in the inflation. I just wanted to understand this current moment. And another question also is about the logistical pressures, and if you're looking at any kind of pressure with that, or if it's been may be less of a concern?

A - Daniela Sabbag Papa {BIO 22210225 <GO>}

Thank you, Irma. And well, when we have the composition of this inflation pressure, at least in the beginning of the year, we expected that prices will be a little lower than what they are now. But what we've noticed in the second quarter was prices were very stable with a trend of kind of drop. And part of this is because the baits compared to the last year we've already growing. And what we've noticed is that there is an important trade down as well. So customers have had a challenge to maintain their consumer habits. This is not standard, but look at the commodities like right prices for example, the package price has grown, it's not unachievable to the point that people may have to shift in the brand.

So, category like this, even though there is an increase in prices, you have a low trade-down, but when you look at beef, for example, then you have a strong trade-down because we want to shift brands or switching beef and opting or choosing poultry and chicken. So then you have a trade-down of about 5% in the same categories in the quarter. So we look at in the same-store-base. We're stable on volume but be able to confirm this, we consider the same inflation pressure as well. And the volumes were stable, but we have an increase in the number of tickets, but we have this -- consider this a bit because it could be more about the behavior that they've adopted in the pandemic, and may be concentrated in a single account.

So in turn we have an impact of lowering that. You noticed that customers are going back to their supply shopping and sometimes they had their replacement purchase as well. So we do have are being little careful in regards to this attachment. So in regards to the volume, it seemed to be positive compared to the last year. So, I don't know if that question was clear.

We had another question of about logistical pressure. If you guys have been noticing any kind of pressure in this? Belmiro, do you want to explain? Answer about the freight and logistics.

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Yeah, we despite the increase in the diesel and fuel overall, the impact on the field hasn't been felt that much and we have some productivity gains as we create a maturity in operations and some expansions also in our distribution centers, which is something we haven't seen with such an impact in the logistics in the next semester. In the first quarter we do not have this kind of impact and we should remain with the same kind of a level in expenses. So, logistical cost wouldn't effective.

Q - Analyst

Thank you. That's very clear.

Operator

The next question comes from Andrew Ruben from Morgan Stanley. We're going to open up your audio so that you can submit your question. Please you can continue, Andrew.

Q - Andrew Ruben {BIO 20391468 <GO>}

Great. Thanks very much for the question. I was wondering if you could talk a bit more about the trends in SG&A. We noticed the leverage even when including the COVID cause that seemed like a bright spot. So what are some of the specific store or corporate level initiatives supporting this performance? And how far along are you in these initiatives? Thank you.

A - Ronaldo Iabrudi Dos Santos Pereira {BIO 5151863 <GO>}

Thank you Andrew for that question. The SG&A expenses, when you consider the comparable base, (inaudible) pretty stable compared to last year. There are some expenses that are being supported by the pandemic. We still have controlling the customer flows, hygiene, and some sick employees. And so there's still some pressure, but as the pandemic drops a bit you have some expectations for gains in the SG&A due to the sanitary protocols with COVID. So we don't want to focus on that day expectation because you may have another variant or percentage in the population, we saw pretty low with the two doses. So we are very careful with this with possible to capturing gain, but some possible other projects generally speaking, we had an increase in corporate expenses after the split with GPA where we started creating some new departments and services that used to be done marginally in a shared way that were became completely individualized between both companies.

So what we've noticed is a percentage of stable SG&A expenses compared to the previous year with the EBITDA margin and stability as well. So that doesn't mean that we haven't had an important gain, but if you look at some expense lines, you'll see this and this of course, affect the company's cash position. So, the expected growth of the rents is corrected by the GPM where there was a significant increase this year with inflation way above what was expected as we achieve about 30%. So, other gains also that we've had with reductions in cost of energy and optimization and that cost allowed us to nullify this effect, and off this effect. But the expectation -- we don't want to give you any kind of expectation, but potential improvement because COVID obviously does not depend on --

so we really are cheering for the reduction of this factor, but of course, this does not only affect it, and doesn't only depend on us.

Q - Andrew Ruben {BIO 20391468 <GO>}

Thank you.

Operator

The next question comes from Joseph Giordano of JP Morgan, in Portuguese. Joseph, we're going to open your microphone, so you can submit your question. Please, Joseph.

Q - Joseph Giordano {BIO 15875778 <GO>}

Thank you. Congratulations on those earnings and result. The two questions. The first one is, if you guys have some understanding of how there could be positive impacts, because of some kind of a tax refund involving ICMS with incentive issues, that could maybe affect you and help you have more of a competitive advantage in the supply chain? And the second point is to try to understand a bit of a capital structure. And we noticed the sales leaseback the fact recently as well. And I wanted to know if we're going to have other transactions up ahead and what would be the optimal leverage level that we should consider in the company to try to understand what could be dividend distributions and cash positions very robust where the CapEx is also that's really significant? And if there was some cash left over, so I just want to understand these three pillars.

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

About the BPS operation, this was more of a BPS in the sale leaseback. As we maintain this expansion process this would require a bit higher level of investment, the operation that was done, and can be done at all shows that instead of building a 100% of the stores we had an operation like this where one was performed and the rest should be -- needed to perform. So, although that makes BPS and sales leaseback. They really intends to reduce the level of investments that we need to be able to continue this type of expansion.

So other operations has been could occur, but that does not affect the network of current storage if applies. So, it's a real contribution and helps us to use third-party capital, the market has been proving to be very favorable in regards to rates with a lot more than what we had in previous years. And what we've noticed is that have these operation, there's been proven to be very strong advantages. So as you mentioned this is a company that's really strong in cash generation. So obviously we're going to continue providing the highest investments within the network of stores we have. In regards to debt, Danny, do you want to talk about this a bit and then leverage rate?

A - Daniela Sabbag Papa {BIO 22210225 <GO>}

Well, yes, I can. So Joseph, we are going to continue reducing the leverage rate as we mentioned already in other calls, but we're going to continue with this reduction although 1.9x EBITDA is not that concerning, we are very close to about 1.5x by the end of the year, which is already excellent. But in the long run, we're going to be between 1x and 2x, which could be reaching closer to 1x as Belmiro mentioned, the strong cash generation, we have been able to achieve that should continue as well.

In regards to the tax reform, obviously it is a drop in the income tax fees and rate if this drops from the perspective of the company then we have a reduction in the income tax. This is positive that in regards to the ICMS, the expectation is that you always have the equality issue right. And then sometimes we have some extreme aberrations in the legislation at the moment that sometimes have relevant differences. So like the special regime when energy companies can get into and the main concern is now whether they're going to set up the store logistics center, but really being able to have this kind of tax regime to pay less taxes than others. So, let's create a scenario and a competitive issue that's not so far, our expectation is always that the discussion is more related to a tax load simplification and more equality than with so much complexity, we're having these challenges, I don't know if that's clear.

Q - Joseph Giordano {BIO 15875778 <GO>}

Okay, yeah, that's clear.

Operator

The next question from Bob Ford of Bank of America in Portuguese. Bob we're going to open up your audio, and Bob you may continue. Bob, could you please open your microphone? So that you can submit your question?

Q - Rob Ford {BIO 15127836 <GO>}

Thank you, everyone for your time. Good afternoon. So how are you looking at your market share in Cash & Carry? Where does it become stabilized in your opinion? And how are you looking at the food inflation in the balance of the year? And is there a relation between the inflation and the increase of new buyers?

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Rob, in regards to market share, we've noticed, when you look at channels, like Cash & Carry, we gain significant participation in all of the different trends to continue. There's still an earning period, when you look at the penetration raise in homes in Brazil and you consider what would be the target audience at Assai Atacadista and the Cash & Carry, you guys model little bit more intensity in about 92% of the homes, but it was reading them is knowledge, so 40% or 50%.

So we see that there's still going to be some kind of a gain and then it's not only about pricing, we've had more concerns with the price location and experienced, and the expansion of the assortment. So, overall, the sector has been investing in innovation. So, we're also including services in some regions that we consider to be necessary and this also helps us estimate the growth of the market overall. And in our expansion plan, and we're considering all these factors and that's we're estimating this opening up 75 new stores and so we should still see the sector gaining about another 6 percentage points in the food channels in Brazil.

Q - Rob Ford {BIO 15127836 <GO>}

And so yes, did you notice some kind of a ratio between this inflation and the growth of new hires per say?

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Well our expectation is for the maintenance of these prices in the second quarter 2020, we had a significant evolution of the prices and all the different segment. And what we've noticed is that there's some kind of a stabilization with isolated movement when increase or drop in prices. And so we believe more in the maintenance because it limits the purchase power of the population. And this is of course the income is very compromised because of the pandemic and other economic issues with the reduction of Corona Voucher and all that, but we don't see much room for increase in prices.

And so we believe more in the maintenance and what we've been looking at in regards to food, and hygiene and cleaning products. And the commodities overall they have this kind of variation in prices, they're very volatile, and there's some weeks only goes up and down. We have some trends with climate issues, dollar export et cetera. But this happens every year and we have an expectation which is more of a maintenance in the price of the product. And if there's some kind of variations, it'll be very subtle. I hope I've answered your question.

Q - Rob Ford {BIO 15127836 <GO>}

I also wanted to know if there's a ratio between the inflation variations and the growth of new buyers for Assai?

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Yes for sure. So when you look at the food channels from yield then you'll notice that there's a big performance difference. As I mentioned, initially you have two trade down, one is the branch with a lower level of income versus the price increases and also another shift in the channel. So if you calculate, for example, that will have 40 million people visiting our stores that we opened 2020, you still have a strong search for this as you have a lower volume level of income in the population and increase in prices of food.

So people are going to avoid switching the brands of the food that they're used to, but they will do a trade down in the channel, and this was generated a positive effect for the Cash & Carry sector as a whole. The expectation is that this will become a little more accentuated as you have a reopening because then you're going to have other components because people don't have expenses with such as going to restaurants or trips and stuff. So these other services will pressure this income and this is why we're very confident that customers that do come in this period are not going to leave post-pandemic.

Q - Rob Ford {BIO 15127836 <GO>}

Okay. Thank you very much. That was very clear.

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Thank you, Bob.

Operator

(Operator Instructions) The next question comes from (inaudible) in Portuguese. Fernando, we're going to open up your audio, so you can submit your question please, you may continue.

Q - Analyst

Hi there. How's it going? My question is very quick, and I just wanted to understand about the use of the proceeds from new fundraising effort. So you mentioned that there should be addressing maybe the amortization of the third and fourth series of the debentures regime tend to prepaid in the next months? Thank you.

A - Daniela Sabbag Papa {BIO 22210225 <GO>}

Yes. We do. Our objective is to perform the prepayment of the series of the debentures issued. That should be maturing in 2022, 2023 and 2024. So these are two series that are a little higher what's meant to be CDI plus the 2.8 and we really have a strong opportunity to capture the CDI plus 1.5. But as I mentioned previously, the exemption under that profile is also a very important factor for us. So far as the 2023, 2024, no it's 2022 and 2023. That's a question here. So we're really expanding this profile of the debt maturity that would be from two years to four-and-a-half years, which is also really important in this process.

Q - Analyst

Thank you. That's clear. And when do you guys plan to perform this prepayment.

A - Daniela Sabbag Papa {BIO 22210225 <GO>}

Well, we are in this process of completing each project, but then then by the end of this quarter and beginning of the next, probably more towards the fourth quarter.

Q - Analyst

Thank you. That's excellent.

A - Daniela Sabbag Papa {BIO 22210225 <GO>}

Bye, bye. Thank you.

Operator

(Operator Instructions) The session with Q&A has been ended. And now we will pass on the word once again to Belmiro for final remarks.

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Well, before I pass on the word to Gabrielle, I just want to thank Danny and Ronny for this opportunity and together with us in this presentation and once again we're just representing 51,000 employees from different areas. And it's a joint effort made by our company and other partnering team, we've continued to grow with the store openings and really being an important transformational agent, really charging others as well, and be challenged ourselves. So, within this the company has really been building with strong track record in the solidness of these delivery. So once again, thank you, everyone. And I'm going to pass on the word once again to Gabrielle to share very important information to share as well.

A - Gabrielle Helu

Yeah, so I've already mentioned, but I'm going to say this once again, we called on the General Assembly shares discussion, that is going to be happening in the 11 August, and so for shareholders that are interested in participating that would be great, it's going to be have greater liquidity, and you can contact us for this documentation you may need.

And so, on behalf of the company, I just want to thank you all for your participation in this video conference, and the IR team will be available if you have any other questions. And as you know, just contact us and we'll be able to service you all. Thank you so much.

Operator

Well, the earnings call, related to the second quarter of 2021 and Assai has been completed. The investor relations department is available to answer any future questions. So thank you all, and have a great afternoon.

A - Belmiro De Figueiredo Gomes {BIO 18107864 <GO>}

Thank you.