

## Q3 2016 Earnings Call

### Company Participants

- Felipe Negrao, Chief Financial Officer
- Peter Estermann, Chief Executive Officer

### Other Participants

- Guilherme Assis, Analyst
- Joao Mamede, Analyst
- Paola Mello, Analyst
- Richard Cathcart, Analyst
- Robert Ford, Analyst
- Roberto Browne, Analyst
- Ruben Couto, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Via Varejo's conference call to discuss the results of the Third Quarter of 2016. This event is also being broadcast via webcast, which can be accessed at [www.viavarejo.com.br/ir](http://www.viavarejo.com.br/ir), where you can find the respective presentation. Slide selection will be managed by you. There will be a replay facility for this call on the website.

We inform you that the Company's press release is also available at the Company's IR website. This event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the evaluations remarks are completed, there will be a question-and-answer session. At that time, further instructions will be provided. (Operator Instructions)

Before proceeding, we would like to inform that forward-looking statements that might be made during this conference call relative to business perspectives, projections and financial and operational goals of Via Varejo based on the beliefs and assumptions of Via Varejo management and on information currently available to the Company.

Such forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they related 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 performance of Via Varejo and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. Peter Estermann, CEO of Via Varejo.

**Peter Estermann** {BIO 15380447 <GO>}

Good morning, everyone. Thank you for joining us in our third quarter '16 earnings conference call. We have here with us our CFO, Felipe Negrao; Alexandre Goncalves, our IR Officer, and some other members of our management.

Before we begin commenting on the results of this quarter, I would like to highlight two important points. First today is an important day for Via Varejo. We are holding the meeting of CNova NV where we will combine Via Varejo and CNova businesses.

We are very confident from the result of this voting and the combination of the business should continue or should proceed immediately after we get the results from the meeting, because of that I would like to ratify that in this conference call we will be making no comments on the results of our e-commerce business as we mentioned, back in August. We will only speak about this after the combination of the two businesses takes place.

Second point has to do with the so-called (inaudible) law. The Company continues to be one of the single ones in electronics and home appliances market, that does not enjoy the law. Because of that, the elements that we have at hand, are moving ahead positively, and we expect to conclude this topic very soon.

Just to give you an idea of the importance of this topic in this quarter, Via Varejo's EBITDA was impacted by approximately 2.4 percentage points. And this amounted to BRL100 million. Year-to-date the total is 300 million in impact. This is an important topic that the management is looking at very closely and like I said, we have an expectation that in the short term, we'll have a final position about this.

As for the results of the quarter, I would like just to say that, as you have probably seen this was still a very difficult quarter. However, we were able to successfully maintain same-store sales growth. We also worked to improve the profitability of the Company. So this was a quarter where we were able to drive sales growth and margin growth.

Same-store sales of Via Varejo in the quarter already adjusted for tax credits was 3.2%. And like I said this was an important growth considering the macroeconomic scenario that we're dealing with. And another important point, adjusted EBITDA margin for brick-and-mortar stores was 3.4% and this resulted the combination of the execution of our commercial strategy and our efforts to work strongly to contain expenses.

We continue with our strategy to maintain a robust financial health for the Company. With that we create a liquidity cushion of buffer that is able to support our strategy in places of

clearly differentiated position, particularly in this very challenging macroeconomic scenario.

The third quarter of 2016 was important in terms of executing on our strategic projects. As we mentioned in the last call, in July, we completed the broadening of our store portfolio with our mobile store-in-store format, which had very positive impact in the third quarter. So you will see in the presentation of our results by (inaudible), you will see that we had a very positive growth in the telephony category and this was strongly driven by this strategy that we began implementing last year, i.e., store-in-store mobile.

Another important point about our strategic planning, with that in the last call, I mentioned that we started implementing (inaudible) the Via Varejo operating excellence model. It's a new model to manage the stores. We have evolved a lot in implementing the project and we have practically 200 stores already on this model in the third quarter.

The schedule is unfolding very smoothly. The results are extremely encouraging and we will be completing the implementation of this new store management model by year-end. This is a project, which is moving ahead very well. We are quite optimistic about the impact on our results for next year, resulting from this project.

And another point that I would like to highlight is that in September, as you've probably heard the minority shareholders of Via Varejo approved the combination of the online and offline businesses with 95% approval of those present in the meeting. And like I said, today we have the last stage of the process of combining both companies, which is the shareholders' meeting of CNova NV.

I'll now turn the floor to our CFO, Felipe Negrao who will be mentioning the highlights for the third quarter of 2016.

**Felipe Negrao** {BIO 19434019 <GO>}

Good morning, everyone. Thank you very much for joining us. Let us begin discussing the results in our business perspective. Let us start on slide 3. In this quarter, although we operated in a challenging market and seeking a better balance between sales and margin, we presented the NHS with EBITDA of 3.2%. Although we are the only relevant electronics company that did not benefit from Lei do Bem Act [ph] in the period.

So this growth it was very important to complete our mobile store-in-store and to begin to roll out more Via [ph] new operational model for operating excellence. We closed the quarter with 191 stores operating under this model, and we will end the year with all stores on this model. We ended the quarter with 970 stores, one store opened and only six stores closing in the quarter, which shows the focus by the management to track results by store and to take the necessary corrective actions.

Please go to slide 4, adjusting for tax effects of the end of tax relief on payroll and credit and tax credits we ended the quarter with a book gross margin of 33.1%. At the same level year-on-year, SG&A -- adjusted SG&A grew 0.3% compared to the same period of

2015. Adjusted SG&A increased from 29.6% of net sales to 30% of net sales, same level of the second quarter '16 [ph].

Adjusted EBITDA for brick-and-mortar stores was driven R\$138 million or 3.4% of net revenue or net sales. If we were to consider the effect of Lei do Bem to all, EBITDA would be 5.8%, 1.8% higher than the third quarter, 2015.

On slide 5, now please, cash adjusted for undiscounted receivables increased by 299 million compared to September 15. Gross debt was reduced in the same period by R\$352 million. Consequently adjusted net cash, adjusted for undiscounted credit card receivables grew R\$651 million compared to the third quarter of 2015. We continue with a solid capital structure and net cash position.

We will maintain our focus with the integration of the companies. Our focus on managing the cash to maintain the financial health of the Company.

Year-to-date financial results represented 3.5% of net sales, presenting, one -- a growth of 1 percentage point year-on-year. This increase results from some items among them a higher interest [ph] rate in the period, compared to the same period of 2015, a longer-term of receivables, and higher discounted receivables.

On slide 6, we see receivables overdue of 208 points [ph] showed a reduction, compared to the same period, reaching 12% of the receivables portfolio, despite a sluggish market. We continue to invest in improvements in our credit rating system, and collection system. We have CDCI an important component and this improved given a better offering of the payment book in the stores.

So this is the result of financial services and operations focusing on offering the best payment format for our customers. We can increase [ph] that our co-branded credit card had a higher share compared to last year in the same period. It's important to highlight that the Company was disciplined in granting credit. Global approval rate were substantially lower when we compare with the same period of 2015.

Please go to slide 7, we can see that adjusted net income for brick-and-mortar stores year-to-date reached R\$81 million.

We will end the presentation now and open the floor for questions. Thank you.

## Questions And Answers

### Operator

And now we will start the session for questions-and-answers. (Operator Instructions) Ms. Irma Sgarz from Goldman Sachs would like to ask a question.

## **Q - Roberto Browne** {BIO 16864913 <GO>}

Good morning, actually, this is Roberto, I have two questions. The first is about the strategy for the fourth quarter. We have seen that in the third quarter you try to balance out the gain of market share with profitability. So I'd like to understand what is your mindset for promotional activities, as far as Black Friday is concerned? And now so saying that inventories are a little bit higher, I would like to know if that is related to opportunity purchases, and if you expect to see growth in sales for the fourth quarter?

And my second question is about expenses to work with tax credits to make them regular. Can you tell us more about that, are we going to see an impact of that from now on?

## **A - Peter Estermann** {BIO 15380447 <GO>}

Thank you very much, Roberto for your question. First, about our expectation for the fourth quarter. We have not seen significant improvements in the client flow. The market is still very difficult. But as you well said this last quarter it has two strong seasonal events, maybe the most important ones for our business, which are Black Friday and Christmas. And also, as you said, we have realized a higher inventory level and that means that in fact Via Varejo is prepared for this last quarter.

We will work on Black Friday and Christmas in order to maintain our competitiveness strategy. Obviously, as we have done in the third quarter, we are going to focus on the balance of sales also market share gains and the Company's profitability. So this is a quarter that will be extremely important for us. It's going to make a big difference for us in terms of retail, and we are ready to work on this quarter as well.

So we will be fully supplied. Our DCs will be supplied as well with the products that lead from the distribution centers. And already having that logistics system totally integrated in the last quarter for Black Friday and Christmas. We will then be prepared to have a service level that will be the right one for our customers with optimize costs. So we are very optimistic about that aspect.

And in spite of knowing that the market will continue being difficult, and it's not going to be easy, but we are ready for it.

And now I'll turn to Felipe. So that he can talk about to the tax credits.

## **A - Felipe Negrão** {BIO 19434019 <GO>}

Good morning. Roberto, actually the BRL15 million are provisions. They have been revisited in the third quarter and this is not recurring. That's not a recurring effect. This is just for the third quarter. So that's why we wrote it off, so that we could have the same comparable basis. And let me elaborate a little bit more on something that Peter mentioned on inventories. We have a strategy to have a greater availability of products, a great assortment in the stores. This is -- thanks to our financial health, we are able to increase our inventory levels with loans from our suppliers. So we do have a star [ph] coverage in here. This is a competitive advantage that we managed [ph] to have.

It is important to stress that vis-a-vis the same quarter of last year, we have generated cash in this period, so yes; this is a higher inventory and also capital investment from the Company.

**Q - Roberto Browne** {BIO 16864913 <GO>}

Thank you very much for your answers.

**Operator**

Mr. Richard from Bradesco BBI would like to ask a question.

**Q - Richard Cathcart** {BIO 16457807 <GO>}

Good morning. About the fourth quarter and I would like to ask Peter, I understood your comments trying to reach a balance between market share gains and profitability and I would like to know if you are planning to have a stable gross margin year-on-year or if we should expect a drop because of Black Friday?

And my second question, I would like to better understand why the growth in Pontofrio has decelerated, so much in the third quarter? Thank you.

**A - Peter Estermann** {BIO 15380447 <GO>}

Thank you, Richard, for your questions. As I have mentioned, the Company is preparing itself for this last quarter of the year, so that we can continue with our competitiveness strategy to continue gaining market share and also accelerate sales, with a balanced margin. We will not provide guidance on future results. You know that this last quarter, as a quarter, that is very important for us, where the sales volume is crucial for the Company's results.

And I also would like to remind you that the last quarter of 2015 was one the Company has gained the most market share in the past. It was when we had the reversion [ph] and sales drop, the Company was able to improve sales significantly. Therefore in this last quarter, we will be comparing ourselves to a strong basis which was the last quarter of '15.

But as I said our strategy is to work on the quarter and also to have gain in market share and sales growth. And about Pontofrio in the third quarter of 2016, the comparable basis already considers the converted stores. The strategic project for banner conversions was very important, it has done in the first half of 2015.

**Q - Richard Cathcart** {BIO 16457807 <GO>}

Thank you very much.

**Operator**

Mr. (inaudible) from Credit Suisse. He has a question as well.

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## **Q - Tobias Stingelin** {BIO 18290133 <GO>}

Good morning. This is Tobias. Good morning Peter, Alexandre and Felipe. I'm sorry if I missed the beginning of the explanation, but about the so-called Lei do Bem and thank you very much for disclosing the amount, but you were the largest company in this segment.

There is a lot of money on the table and you have not been able to get the injunction yet, that is surprising to me. So what is the status of the process, and if you are able to have a favorable injunction, how would that work? The R\$320 million that have already been paid, will have a credit on that? You will not pay from now on. You will have a credit of 320 million.

So how would that work, and is that going to impact your prices? So what I see is that today you have a price where you have to be competitive in the market, but also you are absorbing those taxes. If you would have to transfer taxes the law would be different. So can you tell me about your price dynamics?

And finally Felipe can you tell us a little bit about the benefits from the (inaudible)? Thank you.

## **A - Peter Estermann** {BIO 15380447 <GO>}

Thank you for your questions. I would like to stress one of the aspects of it. We are not pending an injunction, we are discussing the matters relating to the subject. We are assessing all topics internally with all involved stakeholders. And we are deciding which will be our next steps in the short term. So we are not waiting for the injunction in order to make a decision.

Second, you are right, we do have a credit of that amount that we mentioned, 320 million that is up to September. Since this is related to PIS COFINS, if we are benefited from the law, we will then capture that amount very quickly. And an additional benefit is that we will start benefiting ourselves from those figures from now on. And that is going to have a direct impact on the Company's results. So both will impact to the Company, but when we start and we make the decision will have a positive impact from that moment on. You are also right when you talk about the price dynamics and competitiveness, you know that technology categories and in that situation mobile phones, tablets and computers are the main items that are under the law of Lei do Bem. They represent a significant sales volume and in Via Varejo that volume is really significant.

And it should be even higher than other players in the market. That's why it is so important to discuss this issue. We have been able to be competitive. We are bringing in these results even without this loss benefit.

So that means that we have good adjustments in-house, better cost levels as well as an offer strategy that is right. So we expect that if we can benefit from this law we have Via Varejo should have different results from the ones that we have been having.

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**Q - Tobias Stingelin** {BIO 18290133 <GO>}

I'm sorry to interrupt, but if you were not depending on the injunction, what are you waiting for, because you said that if you have an injunction or court opinion you could say I'm not paying on provisioning because there's a lot of money on the table?

And as you said you have a good in-house structure. So that is relevant for the market's dynamic. If we would have more information I think it would be nice.

**A - Peter Estermann** {BIO 15380447 <GO>}

Yes we depend on several things. And as you said we should have sound court opinions. We also have to have an internal alignment in the Company on this matter and Via Varejo definitely have a conservative attitude so far. But with that market dynamics and already with all discussions that have gone forward in the last quarter we understand that, we have important arguments and elements to make a decision in the short term.

I cannot anticipate anything else on the subject, but with due time you will know our decision. But this is something that the management is overlooking closely because it will impact the Company's results.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

And this amount of 320 million does not include CNova, right?

**A - Peter Estermann** {BIO 15380447 <GO>}

No. It's only Via Varejo and as I said we would not be mentioning anything about CNova here. So yes, we do have important figures for CNova. And obviously when we combine both businesses everything is going to be presented in a single package.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you very much.

**A - Peter Estermann** {BIO 15380447 <GO>}

Now about (inaudible), our new management model, as I said and as Felipe stressed we have 900 stores already under that model up to the end of September, this month -- I am sorry, almost a 100 stores with this model, this month in October. We have already equivalent volume. The rollout is going very well and the main leverages that we wait from rolling out these models and the stores that already have the models rolled out are showing positive results.

So we expect to have sales growth, better preparation also a good strategy for stores closures [ph] also to drive sales in the stores and now also an increase in sales conversion rates thanks to a better work from our sales teams in the stores. Second is to drive the selling of financial services and credit operations. And third, a better service level for our customers. So all of these three topics have been considered to improve sales and therefore to improve total gross margin of stores operations that are significant.



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I will not anticipate here details and amounts of what we have already captured and what we have in terms of results in the stores, although we already have a significant number of stores with that rolled out. Because we wanted to wait for the profit to be fully rolled out, we will have material stores under the model and we will have a better idea of the sustainability of the results that we have been able to capture in the first wave and in the second wave of implementation of the model.

But I can tell you that the results are extremely positive and that we do believe that we will have at Via Varejo at another level in terms of operating efficiency and service level to our customers in the stores starting next year.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

And the oldest store is in the process for long already, just to give me an idea of the performance, three months, six months?

**A - Peter Estermann** {BIO 15380447 <GO>}

Tobias we have that pilot in two stores in February of this year. It took 700 days, so that we could make sure that we would be following the best model for all stores. We learned a lot, we developed a lot. So we rolled that out to the other 29 stores. We learned a lot again in a more significant rollout of more 20 stores, and this was in March.

And in April, we added 40 stores. And from then on, the rollout is a massive one, because we were able to prepare the trainers for this new model for more stores. And today we have 350 trainers that are ready to support us in the rollout of this model to other stores. We have trained also all Directors, Regional Managers and the over 1,000 Store Managers and administrative personnel, so that we could work on the project. This is a sound, important and significant project to the company, and as I said, with satisfactory results.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you very much.

**Operator**

Mr. Robert Ford from Bank of America would like to ask a question.

**Q - Robert Ford** {BIO 1499021 <GO>}

Thank you, Peter and team. I think that the CNova performance was much weaker than expected in this quarter. I don't know, if you have an escrow account with CNova to deal with the losses of CNova and deterioration of capital.

**A - Peter Estermann** {BIO 15380447 <GO>}

Bob, could you repeat the end of the question, please. We were not able to understand you.

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**Q - Robert Ford** {BIO 1499021 <GO>}

Do you have a mechanism to adjust the price of CNova, because I think there was losses and deterioration of labor capital. I think, it was greater than expected.

**A - Peter Estermann** {BIO 15380447 <GO>}

Yes. Bob, we do have a combined adjustment and this was published on August 8th, when we published the rules and aspects about the deal and the reorganization. So yes, we have clear, well defined rules and they're all in the agreement that we signed and published. And it's ongoing in accordance with what we projected.

**Q - Robert Ford** {BIO 1499021 <GO>}

But does this adjustment have a cap or not?

**A - Peter Estermann** {BIO 15380447 <GO>}

Yes, we have a number of adjustments. And you know, I will ask Alexandre Goncalves to call your back, so that he can give you all of the details about the agreement. But yes, there is a cap and it is quite well defined.

**Q - Robert Ford** {BIO 1499021 <GO>}

Thank you very much, Peter.

**A - Peter Estermann** {BIO 15380447 <GO>}

Thank you, Bob.

**Operator**

(Operator Instructions) Mr. Ruben Couto with Itau BBA would like to ask a question.

**Q - Ruben Couto** {BIO 19172367 <GO>}

Good morning. Thank you for the opportunity. First talking about SG&A, has selling expenses continued to show an upward trend just like in the second quarter? Do you think that we could expect this level to continue in the coming quarters or are you making efforts to adjust this expanse line to the level of top line that the Company expects?

My second question is more like top down. You mentioned that the traffic of customers in the stores is slow, the market is sluggish and slow, but we see that the competition is getting weaker too. So now entering the fourth quarter with two very important dates. Don't you think that you should be more competitive now, which is to take advantage of the fact that the competition is weak? I just want to get some color on how you see the fourth quarter in this very negative sluggish market?

**A - Peter Estermann** {BIO 15380447 <GO>}

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Thank you for the questions. Let me address the second part first, the market. Indeed, the market is difficult, traffic of customers in the stores is not positive. Year-to-date -- I mean, year-on-year or comparing with what we had last year in the same period, but this is not about Via Varejo, this is about the whole market. The market is not reacting so much. But we have a competitive strategy, our sales strategy. We have some offerings and all of that is attracting more customers to the stores and that's why we have been gaining market share.

Like I said in my introductory remarks on this call, we will continue to pursue this strategy. We have our issues [ph] prepared, in order to have a strategy with the right offerings and in order to be able to attract the customers to the stores. Well, you have to have your store as well supplied with balance to inventories in the different regions with advanced inventories to be able to supply the stores in a balanced way, in different regions and with the adequate level of inventory, according to our sales expectation.

So our whole commercial strategy, our logistics strategies, store supplier strategy in the preparation of the stores for the first quarter, all of that is very aligned. And we are very prepared. So we expect even in a difficult market to bring customers to our stores and to gain market share.

#### **A - Felipe Negrao** {BIO 19434019 <GO>}

Okay. About the expenses, sales and administrative expenses, had suffered a very serious impact of inflation and also the end of the tax relief on payroll. So in terms of selling expenses, we had commission of the sales people. So administrative and expenses as a whole, well we continue to be committed to reduce expenses and improve efficiency. We are seeking to reduce expenses, where they will least impact the operations of the stores.

The biggest impact was by administrative expenses and a lower impact coming from selling expenses because we do not want to cut selling expenses and negatively impact service to customers. Looking ahead, as Peter mentioned, we have the (inaudible) project. We will capture gains from (inaudible) looking forward. There will be a positive and recurring impact. On the other hand, on this quarter, we'll have some expense related to restructuring, given that we'll have to restructure our stand-alone operations and also thinking about the synergies with CNova.

#### **A - Peter Estermann** {BIO 15380447 <GO>}

I'd like to highlight what Felipe said. Like he said, we are continuously observing our cost structure operating efficiency and productivity. We will not make any moves that will negatively impact our operations. We are 100% committed to maintain the service level of our operations, because we understand that this is an important differential for the Company. One, which has allowed us to grow our same-store sales, to grow our total sales and the positive results where [ph] presented.

On the other hand, there are always opportunities to adjust our back office structure and we are keeping our eyes open for that. We are working in that direction because we

understand that next year it will not be improving as quickly as some people expect. Via Varejo is still working with a challenging scenario in the first half of next year and just like we prepared ourselves in the end of last year and beginning of this year, we want to be prepared to face a 2017 first half, there will remain challenging. So we will continue to work to cut down costs in the Company and in this last quarter of the year, we'll continue to work in that direction. So that we will be better prepared for next year.

**Q - Ruben Couto** {BIO 19172367 <GO>}

Perfect. Thank you.

## Operator

Ms. Paola Mello with Citibank would like to ask a question?

**Q - Paola Mello** {BIO 17712227 <GO>}

Hello, everyone. Good morning. I would like to understand the competitive landscape, because we just think that you are being able to grow above the average of the market, sustaining your margins even without getting the injunction for Lei do Bem. We know that there are -- there are many players that have a delicate liquidity situation. So if you could give me an update on that? That would be my first question.

My second question has to do with the strategy of bringing forward some receivables in the third quarter. You normally don't do that a lot in this period. Was this an opportunity of arbitrage in terms of your cost of debt or did you want to have a stronger liquidity position, perhaps to offer more loans -- more consumer loans at the end of the year? I just would like to understand what led you to make this decision? Thank you. I'll follow up with two [ph] questions.

**A - Peter Estermann** {BIO 15380447 <GO>}

Let me answer the first one regarding the competitive landscape. You're correct. Via Varejo has a competitive edge given its solidity, financial health, its capital structure. We have a very robust cash. So we have benefited from that. Both in terms of more opportunity purchases and having a balanced inventory, particularly those products that customers buy and pick up at the store.

We're not going to be making any comments about the competition though. You're perfectly aware that the situation varies from player to player, but Via Varejo has indeed benefited from having robust capital structure of a solid and strong cash.

And also we have benefited because we were able to implement during this period, a very important actions to drive operating efficiency, so the landscape is competitive and it is difficult. But we have to have a well-executed product assortment, so that the few people who are willing to buy will come to our stores and we have been relatively successful in that regard. I will turn the floor to Felipe to answer your second question.

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**A - Felipe Negrão** {BIO 19434019 <GO>}

Good morning, Paola and thank you for your question. All right, every quarter we see the market rates and depending on the rate we make our decisions in terms of receivables. In the past quarter, we had a very low discount for receivables and that was the main reason why in this quarter we had to offer a slightly higher discount than usual, something that we did not do in the past. But like I said in my initial remarks, year-to-date in the nine months of 2016, I think that the best way to look at this is look at year-to-date. So that you can analyze our strategy quarter-on-quarter.

**Q - Paola Mello** {BIO 17712227 <GO>}

Thank you.

**Operator**

Mr. Joao Mamede from Santander would like to ask a question.

**Q - Joao Mamede** {BIO 15265292 <GO>}

Good morning. I would like to go back towards the sales dynamics. From your comments, Peter, I understand that we still have a challenging landscape, but for the last two quarters the Company presented a good improvement -- a good improvement from the first to the second, from the second to the quarter. There was continuity in same store sales. So what I would like to understand and what you can tell us is the development along the months.

Have you seen a constant improvement along that period? And now I would like to talk about October as well, what is the perspective? And I'm not wishing you to make any forecast for the end of the year, but how is that difficult scenario? Is that causing a dynamics that has no standard so a month is better and another month is not that good? And that's my first question.

And going back to, CNova integration, I'm not talking about the results. But turning the page -- now going forward, I would like to talk about the synergy that matter about inventory use, logistics integration. I would like to know, how fast do you believe you will be able to unlock that process? Is it going to be easier to address the inventory issues? Do you believe that if you have a schedule for instance up to the mid of next year, all of that will be integrated and we can analyze what you will be able to unlock or maybe you will need more time along 2017? That would be my second question. Thank you very much.

**A - Peter Estermann** {BIO 15380447 <GO>}

Thank you for your questions. The first part of the question is that the months have been having different behaviors. If we consider the three last months, July, August and September; July and August had a similar behavior with a higher traffic flow of customers in the stores in the first weeks of the month because of payment dates where customers have more money available.

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And always with a stronger drop for the third and even stronger drop for the fourth week of the month and because of that we have to have distinct commercial strategies. Here at Via Varejo we discuss the strategy on a weekly basis every Tuesday. These are important meetings. We talk about sales, traffic flow of customers in the stores, what are the offers we will provide so that we can attract more customers, what are the offers that have better profitability and which ones will provide a better cash margin for the Company.

So we hold weekly discussions on this subject. September had a distinct behavior when compared to the two prior months because the two last weeks, we did have much lower traffic flow. It was a period in time where we had the highest drop in traffic flow considering the last 12 months.

So those were two difficult weeks. We don't know whether that is related to the banks' strike and that might have had some type of impact. In the first week of October, we did have a better result, but it was below our expectation. And with talked about our commercial strategy that we should choose for that month and we are confident that we will be able to achieve the expected results for the last quarter.

Now the second part of your question about synergies that we talked about to the market, where the first synergy are the 242 recurring -- sorry, 245 million that are recurring, most that over -- over 50% comes from the logistics synergy of these two companies. This synergy is going extremely well, both in the fiscal (inaudible) as well capturing the expected amounts on a monthly basis. We expect to end the harder part that demands the most efforts from the management, the whole team of rolling out is still end of November.

We should start Black Friday already operating fully integrated with our e-commerce and everything is guiding us towards that. And for Christmas will then be capturing all benefits, especially in terms of delivery time for clients, cost reduction, also precision on our delivery not only on the days. So our logistics synergy is going very well. It accounts for over 50% of that amount that I mentioned.

And the back office synergy which is another important area of this amount is also going very well. We have prepared the environment extremely well and we have all the planning included. Some areas are already rolling out the process. We are very careful on that whole movement so that we really would have the best professionals on our side working on this new company.

So that we were able to maintain that technical knowledge and the specialty of each channel and the team is going to be gathered in Sao Caetano starting November as soon as the business are combined and we will have a very good reaction to that. Everything is well prepared, brick-and-mortar stores are prepared, everything is going well. And we are very much confident that we will be able to deliver 100% of that amount that we will have in the beginning of operations.

About inventory synergy the same thing applies, as you said, it's easier, but it's not that easy, but it's possible. So it is less dramatic and we are well advanced in the analysis of

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the items that are common to both operations. We have already centralized the distribution centers. Of the main ones that we have, we are working with the e-commerce operation in Via Varejo in our distribution centers that will be serving both channels from now on.

We have optimized costs. Also we have operating efficiency. We have the reduction of cost per square meter of stores. It's going very well and the combining of inventories is going well. We are sure that we will be delivering that amount by the end of the year. So synergies are going very well and we are going to start the next quarter fully integrated in terms of logistics operating -- operations. And that is going to be very good for all channels.

**Q - Joao Mamede** {BIO 15265292 <GO>}

So now a quick follow-up, the amount of the synergy is very relevant. Do you consider if the market remains as you mentioned that you expect that 2016 to be difficult? So do you consider investing part of that synergy that once again is extremely significant to expedite the process of market share gain or is that going to contribute to your margin? Thank you again.

**A - Peter Estermann** {BIO 15380447 <GO>}

I do think that will have an impact both ways. We will have an impact improving operating efficiency and costs, so these synergies will provide good impact in the Company's results. I am sure. And also, we will have a very positive impact in driving sales. When we look at our strategies of multi-channels, we will be working at those in the last [ph] quarter. The use of common inventories for both companies using the whole logistics network that we at Via Varejo have, which is much larger than e-commerce and cost structure and also an efficiency of the DCs of Via Varejo that are very positive.

With all of that, we'll have impact on costs, we will drive sales and so we will have a service level to our clients that is going to be totally special. And that in the Brazilian market, we don't have too many people ready to deliver.

**Q - Joao Mamede** {BIO 15265292 <GO>}

Thank you very much once again.

**Operator**

Mr. Guilherme Assis from Brasil Plural, would like to ask a question.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Good morning, everyone and thank you. I have two questions actually, that I would like to go over. One is about the strategy of stores closing and stores conversion. You have closed six stores, if I'm not mistaken, and you have opened one. But in the last 12 months, I think you have closed 46. What is your understanding about that issue opening and

closing stores for the future and what we can expect in the short term for next year? And how that is going to impact in your efficiency plan, can we expect -- what we can expect?

In some companies, we'd say that sometimes this is an ICU [ph] of stores. You have a good performance year, you were holding some initiatives, so that you see if there is improvement margins, changes on the stores. Are you working on that path? And how many stores would be in that category under analysis? Or no, do you think you have already the most difficult stores, the worst stores have already been closed or converted, this was one question.

And my second question, about CNova. I know that you will not talk about it, but in this transition period along the third quarter and during the preparation for the integration, the combination of both. How is this transition being done in CNova? What is the strategy? I know, we were not disclosing results, but we saw that there was a change, a significant sale -- drop sales and also impacted on margin.

So, not talking about the results, but what is the process like? And how is it going and how is that going to change when the combination happens? I know they are still operating. So, I would like to understand how is that going and how is that going to change when both companies become integrated? Thank you.

#### **A - Peter Estermann {BIO 15380447 <GO>}**

Thank you for both questions, Guilherme. On the first one, how we follow up the performance in the results, and how we assess our stores? I have mentioned before that we have a team monitoring the stores' performance. We have around 50 stores that are in our pipeline constantly, and that is to evaluate these stores' performance. This is something that we do routinely. Felipe has mentioned, we have been successful in the process. It is a cyclical one. We do have stores coming in, and going out in this whole set of stores that we follow up.

And once again, I think, we will always have stores that we have to look at closely. And as I said, after we do everything that we can, we then close the store. That's why we have closed a few of them this year. And the figures you mentioned are in line to what has been done and we are always keeping a line forward [ph]. We not only analyze the stores performance to make a decision to close or not that store.

We also analyze the competitive environment where the store is out, the region where we find ourselves, if this is a strategic store for the company in terms of positioning region, if it is in regions where we are more or less concentrated and we analyze the future strategy of the Company as well. And whenever we have to make a decision, we check the potential for sales migration for other stores in the region.

So once again, we analyze all those topics and in this last quarter it's an important one for sales. Therefore, the stores footprint that we have is according to our expectations in terms of sales targets for the period. And we'll be very close to this process. We will be making the needed decisions.



About stores conversions and as I said, we believe that this movement is over, if any conversion happens it's going to be very specific. But we know that the converted stores have a very positive result. So in terms of stores conversion, we should not expect too much more ahead.

Now about CNova we have been talking a lot about it. We have been working with CNova on a commercial strategy that is unified. The third quarter was one, where the company developed on the basis of 2015 and a strategic discussion we held, we started on some alignments for category strategies on the online channel with interesting results and we are not only looking at sales but also a healthier result in terms of margins.

Via Varejo management as well as the CNova management, we are very confident that we have a well-defined path in order to deliver better results in the next quarter.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Okay. Can you tell us a little bit more on CNova about inventory management? We have seen that there was an important change. It looks like inventories there are in a transition period. How is that being worked and how has it been being managed so far? What are you going to look for and capture in the short term? But it seems like the figure that they have at CNova is not right. So what is the management in this transition period like?

**A - Peter Estermann** {BIO 15380447 <GO>}

CNova has so far a full management on their inventory and they are fully aligned to commercial strategy that CNova has up to today. Obviously as I said, we are analyzing the combination of inventories and you know that we do have those opportunities to adjust inventory levels. But as I said, I cannot comment on results or neither CNova figures so far. But we can expect not only a reduction in the inventory levels, but also better qualification of inventories and joint yields of inventories to drive sales, reducing stockouts.

So we will reduce the stockouts, we will improve the inventory level and also the quality of that inventory, and that's going to happen very fast.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

And now about suppliers, it looks like they have a high number of them, over 300. Could you have any cash investment from Via Varejo to even that out?

**A - Peter Estermann** {BIO 15380447 <GO>}

We cannot comment on CNova's results. So once again, the results have been disclosed. We are talking to them. As I said, management is extremely aligned on what we have to do and once again, that's part of the business combination. And we have to tackle all matters in an expedited manner, so that we can improve results.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Okay, thank you.

## Operator

(Operator Instructions) We are now closing the Q&A session. I would like to turn the conference back to Mr. Peter Estermann for his final remarks.

### A - Peter Estermann {BIO 15380447 <GO>}

Before closing our conference call, I'd like to make some final comments. I would like to underscore some aspects related to our strategy for the coming months. So we will continue with our competitive strategy. We will continue with our stores very well activated with well-adjusted inventories and we will have a clear guideline to continue to gain market share, but with profitability.

We have a totally integrated logistics as I mentioned and I believe that this is an ultra-important factor for the Company to continue. We are going to drive a significant improvement in the level of service to our customers and we'll bring about important cost reductions.

We will also continue to keep our radar focused internally to drive cost efficiency with potential reduction of expenses. And when integrating the online world with the offline world, I want to highlight that in addition to aspects related to improving efficiency and driving down costs, we have been working with both teams, very integrated.

Looking carefully at all of the aspects involved, we want to have the best professionals working in this new combined entity and we are convinced that our multi-channel strategy that we're starting -- that we have started implementing in the past quarter, will bring differentiated purchasing experience to our customers.

The Company's management is extremely confident and extremely committed to a successful integration of both businesses. Thank you very much.

## Operator

Thank you. Via Varejo's conference call is closed. The Company's Investor Relations team is available to answer any other questions that you might have. We would like to thank you all for participating and we wish you a good day.

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