Q2 2012 Earnings Call

Company Participants

- Claudia Elisa de Pinho Soares, Financial and Investor Relations Vice Executive President Director
- Corporate Participant
- Gérman Quiroga, Chief Executive Officer, Nova PontoCom
- Jorge Fernando Herzog, Vice Executive President Director
- José Roberto Coimbra Tambasco, Director Vice-President, GPA
- Raphael Oscar Klein, Chief Executive Officer

Other Participants

- Analyst
- Andrea Faria Teixeira
- Gustavo Oliveira
- Tobias Stingelin

Presentation

Operator

Good morning ladies and gentlemen, thank you for waiting. Welcome to Grupo Pão de Açúcar Conference Call to discuss the Results for the Second Quarter of 2012.

This event is also being broadcast via webcast, which can be accessed at www.grupopaodeacucar.com.br/ir/gpa and www.globex.com.br/ir with the respective presentation. The slide selection will be managed by yourselves.

There will be a replay facility for this call on the website. We inform you that the company's press releases are also available at their IR website. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After GPA's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. [Operator Instructions]

Before proceeding, let me mention that forward-looking statements are being made. Any projections or financial objectives are based on the beliefs and assumptions of GPA management and on observation currently available for the company. They involve risk, uncertainties and assumptions that could be relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, inventory conditions and other operating factors should also affect the future results of GPA 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. Richo Strasser. You may proceed.

Corporate Participant

Good morning everybody. And welcome to this call on the results of the second quarter of 2012. We have here with us Raphael Klein and many other officers of GPA and to proceed with this results call.

Good morning everybody. It's good to see all of you once again. And I hope to -- we will be able to answer all your questions as well. First of all I would like to talk about the macro scenario and Brazil has a very good consumer market. And so I think we have good results.

The second quarter, the third quarter, I think the calendar is even more favorable. And generally speaking, Brazil continues to present very good fundamentals in, say on a low level of unemployment. There is practically full employment of jobs and the rates of interest inflation is under control. So very good fundamental, which is very good for retail, particularly regarding the question of income.

When we talk today a lot about the increased of family indebtors are probably still that inspite a greater level of indebtness of the families or homes the -- for the income available for families is not so effective because the debt is because of the purchase of family's own home and sometimes rent and sometime the purchase of a home the installment is less than rent but the effect on the income for construction is not that effective.

So the question of default or delinquency as we see it is more focused on the second of --, we do not identify in our business an increase of delinquency. It is keeping at the levels of 2011 with a trends to dropping. So the question of the dollar appreciation which we had in the last few months has put some pressure on -- prices or product prices but this is being negotiated so it will not impact prices and not -- increase in prices. Contrary to everything we have optimistic view vis-à-vis the current scenario in the country and of Brazil. We must -- the fundamental and the power of Brazil and the consumer domestic market and believe that -- Brazil will grow. And so we will be able to consume and invest and not shrink and not shirk for investment.

We will continue with our investments. We will keep our guidance for this year as we have already mentioned. But we think that we must fulfill our investments, particularly regarding -- we will continue to show solid sound growth, particularly with the increase of income, particularly in the food, retail but maintaining good results.

We have more than 16 quarters presenting positive results with very good growth and this is being kept steady. We hope that second quarter will be good, the third will be even better, because of the calendar. And we'll start inching as from August and the fourth quarter will be better still. It will be stronger, the fourth quarter will be even stronger. We have an excellent team here, a very competent team and a management model, which is well consolidated. And this management model is already two years old and the Group has it under control being able to diagnose and map things out and bring about action when needed to solve any problem that might crop up.

This is being carried out.

We have a very dynamic work. We identify and diagnose things and take actions actually every week. So the professional competent team, well motivated to continue to deliver growth and target in each one of our different businesses in a Group without losing the capacity. And to-date if the market is good, great, if it drops we will make it better, looking for better market share, improving our relative position, especially where we have good profits, in eCommerce in retail or a electronic products we have a leadership position, we have a high market share position in each one these segments and high capacity to take market share and not depend only on a macroeconomic growth generally speaking.

One point that I would like to mention, they are relative points. The first that I would like to talk about is communicate, we just communicated to the market yesterday, we will see reflection of the new CC and CFO Mr. Hidalgo, who -- he is a professional with a excellent background, very strong financial person and he has a lot of experience in the retail.

He was -- CFO in Columbia, he is 24, he has got a lot of energy and he is in tune with our values here in the Pao de Acucar, with the discipline and emotional balance that we seek. All of this was discussed with me previously and Vitor took this position before and but then I interviewed him and the process continued and yesterday he was elected. And this job for a while, brilliantly he will continue for while a longer because Vitor was elected yesterday.

However, he will not take on immediately and there is sometime for him to adjust but this is not going to hold impact because Vitor will continue to do this job in a very confident way. And after this Vitor will continue to be responsible with the full investor relation and directly reporting to myself or to the top management of Pao de Acucar. So I'd like to thank Vitor for his competence and professionalism in ease in the financial area and -- moment.

Another point which is important was the shaping out of -- processes with the long drag out -- market has been structuring this real estate arm in a very professional way, making up the main and effects of this real estate arm for the company in a very structured way with good processes, with clear management. Recently we put in -- channels and we are introducing and so he his now is going ahead with this process, with this position and always supported by Claudia Martin. And now it's beginning to present results.

We don't have the current results, because we are shipping out more and property is just being restructured with the -- on it. It will continue to carry out operations to explore real estate activity when it recur for our firm activities. It's drawing our properties so that we could bring in greater revenues or recurrent results for the Group contributing for the creation of value and the work of all progress of the Group.

Now from a more macro view, we will go into the presentation to the page two. I would like to say a few words about the consolidated results. And then I would like the team to take over and they will go into further details as they see. So you could have the correct interpretation of the figures and the results.

So on page two we have three important points, the sales for the second quarter. We have two columns, one which is reported and the pro forma where we exclude the results of the GPA more and real estate, so we can have a comparison with the former quarter. We had 13.512 billion in sales, a growth of 7.2%, a growth of 5.6%, ex net of the FX, -- the real estate effect 13.414, plus 6.4. That is 5.6. EBITDA we have 787 million, a growth of 22.8%, excluding GPA malls and properties a growth of 7.9%, totaling 692 million EBITDA. So even considering the comparative value, we have a growth which is above the sales growth, which means a growth for the Group as a whole, caused by the food sector.

And the net income, 255 million a growth of 180% and a net margin of 2.1%. Without the effect of the real estate branch is a 159 million, comparable to last year which gives us a good growth 4.5% and net margin of 1.3%.

Now on page three, we will saw -- a good thing here about the -- the first six months. We have a gross sales of 27.172, a growth of 8.8%, same stores sales growth 7.6%, without real estate, from 27,000 a growth 8.4% and same store growth 7.6. EBITDA 1.6 million, 26.3 -- a margin of 6.4. Excluding the real estate projects we have 1.456 billion of EBITDA which accounts for 19% growth. This is strong robust growth compared to last year and a margin of 6%.

Net income 421 million, excluding real estate projects 331, a growth of 48.3% when compared to the same half year last year. So these are the results. I hope that you will be able to analyze these.

Now on page four, talking a little bit about the real estate projects and Antonio and Alexandre are going to give you some greater details. We have a revenue of 98 million, this operation was a swap of land and sellers -- about this activity, this kind of operations and another two which will be presented. This is already being realized. It is important to say that our objective is not to sell our assets but to exploit them, to use them. So that we can have recurrence results and based, as I have said on a business, which today is a really well structured and what would bring recurrent results and important value which will come from the -- which is a real estate project.

And here on the page four then I will give the floor to my colleagues. But the gross sales, if we exclude the real estate projects results in the Food division, the growth was 5.9% in the second quarter, gross income, 25.7%, the growth is 8.5%, half a point about last year, and EBITDA margin is 7.2%, which accounts for a growth of 14.2% in the EBITDA of GPA Food. And GPA Food is -- as a whole, hyper markets, supermarkets, central -- stations, mini markets and Asae which is our cash and carry outlet. So here we have to be very clear comparison for the analysis of the results vis-à-vis in the same period last year.

And to conclude my comments, I would like to say a little bit about our indebtedness which is more or less the same. The consolidated net debt is 4.8 at the close of the first quarter and 4.9 billion at the close of the first six months. If we have the net debt over EBITDA this is maintained at first quarter, 1.51 and now 1.5 times our EBITDA at the end of the semester. This has the effect of the reduction of the SELIC rate, but also because of the reduction of the sales and installments results without interest, net of interest as the retail team will explain. And the CapEx, well, we are not reducing that, particularly the increase of the sales area we will hit our target. We had 392 million in the third quarter and this year, now on 30th of June we have 633 at the end of the semester.

If we compared this to last year, last year we have invested 35% more, end of the third semester 7.5%, what is significant is the growth that we have invested in new stores in the second, for the last year we invested 34 million and this quarter a 150 million.

This gives us 360% of growth in the company of new stores and purchase of land. Last semester let us say, the first semester, for this semester we have invested 232 million, a growth about a 100% when compared to last year. This means we are seriously focused on organic expansion to guarantee the growth of the company. This will be further detailed, the growth in number of stores and extension of 14 stores which will be detailed further on.

I will conclude it now but I will continue here, after this programme to answer your questions. So I would now like to ask Vitor to continue. Thank you very much.

Thank you, Enéas. That's the results of GPA Foods in the second quarter. And here we don't see any -- Pao de Acucar -- operations and also the results of holden properties, real estate projects and then I will give the floor to the -- so they will make some comments on their businesses over this quarter.

So on page six, here you can see the evolution, the evolution, a positive evolution, 7.4, I am sorry we are having problems with a sound, accounted for 7.3% growth compared to the same period of last year. It's important to notice that on top of that, there was a very significant growth in the gross income, 26.8 over this quarter accounted for a gain a 1.6 percentage points. It's important to show that this increase in gross income, is seen both from retail foods and also ASAE our cash and carry operation. These two segments contributed positively for the improved gross income.

Next we can have a positive performance as well when it comes to lower operating expenses [Technical Difficulty] and other segments particularly when it comes to the evolution of personal expenses as has been discussed previously with you. When it comes to EBITDA, we also had a productive growth, 574 million also owing to the growth in our retail food business, but particularly the growth in EBITDA when it comes to cash and carry. Here we can see very significant improved margin as a result of all the efforts by the -- and all the team involved in this segment. The EBITDA margin rose from 1.5% to levels greater than 3.8% over the quarter. So that reflects the efforts of the whole team, particularly in this segment which has been performed over the last 12 months.

As the financial expenses, we had evolution, a drop in financial expenses, reaching 1.8% of net sales and this positive evolution than -- from a reduction in the SELIC rates over the quarter as it all being following on. But also the very stringent discipline when it comes to payment terms as well as payment conditions offered to our customers. We don't find any kind of deterioration in expenses. And the select scenario is more favorable with a significant reduction in financial expenses and in terms of net income growing 170% vis-à-vis last year, as a result of improved results, in retail, food ASAE and also the recognition of this revenue and gains when it comes to our real estate project.

Now I'd like to give the floor to José Luiz Majolo so he can make a few comments on the evolution in performance and also what we have achieved in practical terms when it comes to our businesses for retail foods.

Good morning everybody. Now more specifically on supermarkets and hypermarkets, I think it's important to notice the sales performance this quarter, it was slightly lower compared to the previous quarter. Enéas has already address that briefly. This quarter was slightly affected by seasonality and this is true. Last year the whole Easter was concentrated in the second quarter and this year it happened in the first or in the late first quarter. As a result, it had a negative impact in the performance in the month of April.

Another factor that also affects the sales growth is that in this case when it comes from to April and May there was a deflation in categories like fruit and vegetables and meat. As the result, despite the increase in sales volume our revenue was close to zero. So that is part of -- behind its performance is that category that ever since last year we have been making comments on a very significant growth particularly due to the higher purchasing power of social bracket -- categories like toiletries, general merchandize and household appliances, -- and ready to ready-to-eat meals, additional tariffs of cheese and dairy and bread, these are categories that have began to -- the basket of these consumers.

These categories are growing above inflation and this shows an outlook that we will be able to maintain our sales performance and now no longer affected by this deflation related to fruits, vegetable and meats. and that makes us feel very bullish for months to come. And through our expansion or opening of stores this quarter we feel we are were concentrated in the conversion of extra -- into mini markets. We concluded 65 stores converted and in the third quarter our focus, our work will be focusing on opening new stores. As our 19 new mini markets stores, again in the fourth quarter another 30 stores as to hypermarkets. We have already started amount with one more hypermarket and we should have another hypermarket or a fourth hypermarket in August this year.

And this we would allow us to exceed the number of opening a hypermarkets this year. Therefore we expect to maintain our expansion in terms of 6% selling area which was our target for the year. And maybe some gap, some leeway when we comes either additional two hypermarkets compared to our previous forecast. As to retail, now this growth in margins as Vitor mentioned also ends by being a positive result of the broader performance of these categories that I mentioned before, in terms of gaining more market share in our business and that's our expectation that these numbers will be maintained in the future. Thank you very much. And that's all for...

Now I would like to give the floor to Bill Meadow so that he can make comments on results for cash and carry.

Good morning everyone. In the second quarter of 2012 we maintained to capture and have improvement coming from adjustments made through ASAE operations over 2011 and changes made in the commercial policy. As a result in the second quarter we had a growth in sales around 11.11 and same-store sales growing 10%. Total was 17.2% in our ASAE operation, 15% in same-store sales year-to-date. This has being achieved through changes in our commercial positioning in ASAE seeking for better service through corporations and that applies to the whole store base regardless of the year of opening.

The main highlight that we had in the second quarter as Vitor mentioned has to do with the commercial positioning and observation of the new -- that was made last year has reserved sort of improved 32% in ASAE. And all lines through expense control, improve the operation EBITDA 192%, moving from 40 million EBITDA in the second quarter. And also changes the same in terms -- rates gross also improved financial results with a cost reduction of 26%. As a result, the net income of ASAE was 90 million, considering net loss of 5 million compared to the second quarter of last year, resulting 1.8% declines of net sales over the quarter.

In the first half of the year we had a net loss of 21 million now in that number is 34 million showing that the changes made over 2011, resulting not only increased sales but also a very strong contribution to the Group as a whole. In the first quarter we also decided to reposition the expansion in our ASAE and the store format now there it is likely to be different now it requires slightly higher areas, same characteristics of the real estate in order to have a more automated operation and lower use of labor at the store level.

And this speaks to our perfection of excellent quality and that will be in the opening of new units in the second half of 2012 and particularly in 2013 and '14. The outlook is very good for the second half of the year. The market is taking well the cash and carry model, logistic difficulties that we have been observed in the -- of very dense regions since I favor the model. The model has been increasingly more consolidated in terms of supplier as a complementary distributor it's very important for service and we went there by -- supply the industry and also helping small companies, not to need to sell or to maintain a high inventory level and we can use wholesale or the supply point.

And therefore we have a very bullish outlooks for the second half of the year. Thank you very much. And we will be happy to your questions. Next - will be addressing real estate projects.

Good morning everybody. Enéas has already addressed the topic but just recap, this was created to power, retail operation. Trying to make use of the real estate assets, created by our brick and mortar stores because we are anchor stores, the goal is to work on the company's assets. So we can add to retail assets. The figure shown today stem from a work that's a started many years ago, it is still a repressed real estate market just to give an idea the first venture of -- was four years ago.

However considering that the real sale cycle is very different compared to retail, but first retail, we only start with here now. Consider the extension of GPA, -- in the first figure we hired a CO to be exclusively devoted to this operation. I had this position in the past. I'd like to introduce to you Alexandre Bertoldi the new Chief Executive Officer of GPA modern property to address the result. And I give the floor to Alexandre now.

Good morning. I'll be sticking to slide eight. As Carlos and Enéas explained before, here we have some details of the three most important projects taken by modern properties for four years now. And that was carried out by the team. Basically these are strong operations and we give the land and our partners work with sales, constructions and delivery of the units regardless of the residential or commercial, refers to projects are part of the results for this quarter and their efforts -- will be launched in August.

For the future we will be increasing seeking to have the recurrent income, generating or adding value to the Group's results. What does that mean? It means that we have to look at existing assets, try to find out every place, and on top of that we need specific development in order to cater to the needs of the target public in this surrounding area. That applies both to land available today and also for the -- who follow up the organic expansion of our businesses. All our stores once implemented generate traffic, they generate value and also see complementary service to the business operation and that's exactly our intention to provide solution that meets all those needs. Thank you very much.

Next Raphael Klein will be making comments on Via Varejo operations.

Raphael Oscar Klein {BIO 17276978 <GO>}

Good morning, everyone. Once again we are here to report the second quarter of the year.

We're very excited and happy. In the second quarter of this quarter we has good growth in same-store sales. We believe we are growing 6.3% in same-store which is good and strong. Net of inflation, our growth in same-store sales was 12%, exclusively brick and mortar stores and that's how we calculated well down to 12 this was based on IDT. We have 7% inflation for electronic products and inflation approximately 1% in furniture. When we work on the weighted sales mix, Via Varejo as a whole including Casas Bahia properties we are seeking 5.5%.

This shows the sales evolution growing to digits. We believe this is very healthy. There are some factors like IPI that also favor this guiding our sales. We have to mention some of the actions that we have already implemented some while ago where now we are beginning to reap the fruit. For instance, we implemented a concept store for Ponto Frio where the pilot studies six months ago when all the pilot study has already turned to be the final model. We already have 21 new stores under the new Ponto Frio concept.

We are very confident and we believe this concept will be ideal for the new repositioning and from Ponto Frio we have a new product mix as well. An example, just being very straightforward Ponto Frio today already is the largest LCD or LED big screen point of sales, owing to this new concept and a record take in our stores.

As to financial expenses, financial expenses are part of our pricing and that's something we monitor daily and also part of the reduction in financial expenses. They come from lower SELIC rates and Claudia in the next slide will be addressing that in more detail. But the most important thing is that we are committed to future of the company, we implemented the university of retail, ensuring our look and feel and our saliency of operations -- as if it were an university in which own store managers are promoted in-house regional managers are promoted in-house as well.

We refer that to leader of the future's program and that ensures the core team of the company and on top of that the productivity of the company. In short, we believe that we are on the right track. Sales are very much in line with our expectations, was the answer to what's -- was the answer to our migration in the system, restructuring and we can ensure that the core team of the company is doing well.

We open additional 50 or 60 store this year. This is our goal early this year and we are confident that we'll be achieving that. We have a big challenge ahead of us. We're strongly engaged in expenses. We have already implemented several actions in order to lower our operating expenses. As already said on cash committee and this committee establishes all the expenses of the foods control and recommends continued improvement for all these drivers of the company.

And we believe that we will be reaping all these fruits over the second half of 2012. We are very excited, we are very confident for 2012 and also ready for growth in Brazil and -- we will be able to meet those needs.

Thank you very much. I would like to give the floor to my friend, Quiroga.

Corporate Participant

Good morning, everybody. Well, we have had less demand and heated competition, contrary to what you can imagine in the circumstances as the new -- things that this kind of situation with these investor team, where we have this team, and I'd like to remind you that last year we were perhaps the only company which showed growth in this section and also improved cash. And also remind you that in 2010 we delivered good -- from 17 of December and maintained the reliability or the trust of our company of the clients. And now we are in a similar situation, because as we focus a lot on e-commerce we would like to keep this as strong as possible.

So we have decided to focus on a generation of value for the shareholders and this is done through the generation of cash. And in such a way, that we will focus on these two factor and be able to grow in a healthy way. And more than half of the variable remuneration of our -- we will have, we have sold most important commercial brands of the -- we have grown 10% at the Atacado Ponto Frio and the interesting thing is that this year we will reach the level of 4.3, equivalent amount of -- when it was integrated into GPA.

In the third quarter more than ever we are putting in back end assortment management, customer satisfaction, service leader, working capital consistent relationship with our suppliers and customers with long-term strategies and partnership, and above all with the senior team, excited with our trajectory and intelligence for the future. Another highlight is full engagement and the use of automation of our processes, particularly our -- we are also increasing the way we work on information on our consumers -- and analytic which is very differentiating.

And we also have a series of innovation when it comes to social networks, highlighting Facebook and also social log in. And basically that's a possibility to have our customers log into our electronic platform. And this always speak customers -- management would like to congratulate our team for reaching higher levels in customer satisfaction and -- that checks this kind of metrics like we did proclaim and -- that at all components. Thank you very much. Now I'd like to give the floor to Claudia, CFO of...

Claudia Elisa de Pinho Soares {BIO 16377398 <GO>}

Good morning. Well, now let's go to slide 10. In fact we have several numbers here and everything that's with -- Quirogo have said to you regarding work that has been carried out by the team of the company as a whole. And this has brought along, what we have seen the result of 6 billion of gross sales a growth of 7% and same store sales of 6.7%, which is the very interesting, particularly when one considers the impact that we also suffer of the translation effect.

In terms of gross income we have had a growth of gross income but in terms of gross margin and if you were watching at CNN, -- mentions the set up competition a drop of one percentage point. And this appears in our results, offset in a way while we have seen improved expenses and a participation in a net income and we have had a drop here.

So operating expenses of 21% of the net income, and an EBITDA of 214 million which is 4% of the net revenue, and the EBITDA margin, 4%. And then we have been following closely the net financial expenses where we can also say an improvement in the results, an improvement of 0.3 percentage points, 3.1%, the best results, financial results that we have had ever since we started presenting our results. And all these effect leads then to a very good net profit of 5 million which is also an evolution of growth, regarding the second quarter 2011.

So there has been definitely a growth but of course but in retail both in the physical world and on the e-commerce and wholesale it continues to be sound and optimistic about everything it will build up. We want all and we know that we want to be the best, through better assortment, through our service, our logistic services and through all of this which is the education to outline.

Thank you very much. And I would like to give the call back to Neto César.

Corporate Participant

So thank you very much to all of you. We will now go on to question-and-answers.

Questions And Answers

Operator

So now we have our Q&A session. [Operator Instructions]. Our first question comes from Raul Mamadi from BCG Paxwell

Q - Analyst

Good afternoon. My question has to do with this competitive environment. How -- be from now on -- are you going to open up a bit, so you have a 100% focus on profitability, because even with more cautious measures you have had a lot of -- languages relevant for e-commerce? So this is my first question. And the second question is to the significant amount of gross margins in the cash and carry. So perhaps you thought that will pull the margin up but it's difficult to see what the end of this will be. So perhaps you could tell us a little bit about what you're seeing and then medium and long-term? Thank you.

A - Corporate Participant

Thank you very much. We will ask Quiroga who is going to answer your first question and then Belmiro will answer your second question.

Mr. Raul, thank you for your question. So the competitive competition and the competitive environment, we are prepared for this, say we have the best purchasers of the products that we sell by e-commerce. We have five divisions in which we are leaders, furniture and electronics. So we are leaders here and we have a very good position. So but we prefer to focus on profitability.

Last year we also during the year we had some -- with losses but we choose with profit and this is the most important to be ready to make the operation profitable to build up the volume, these are the averages for the year. So we are prepared together profit again during this year, together income so the lag -- we had profit last year and we will show that we will hit this level again. And I doubt whether the competition will do the same. So but we will focus on profitability. So we are growing. We are generating cash and we will have profitability during the year.

We are getting ready now at the beginning of the year and we will certainly see this in the second half of this year.

Hello, Raul this is Belmiro. Regarding your question, so the gross margins of the wholesale is obviously less than retail improvement from not -- this has led to an improvement in the margins. And we have much better assortment and more automated processes. So wholesale also is very well -- within a certain period of time and special credit margins as well. So it's 4% or 5% but this is converted into a net profit of 2% or 3% and this is what we intend to keep.

Q - Analyst

Thank you Belmiro.

Operator

Our next question comes from Mr. Ricardo Boisis from Herbicho. You may proceed.

Q - Analyst

Good morning. Thank you for this opportunity. First of all, to clarify with wholesale, regarding the competitive environment again. The retail company, is it feeling some sort of pressure, or stiffer environmental or competitive environment or in the e-commerce division? And also for the food, retail and the Mini Mercado Extra, what can you visualize from -- after the conversion of the stores that were converted? How -- have the revenues and margins grown, what can we expect for this format, and will there be new stores opened, what is your idea?

A - Raphael Oscar Klein {BIO 17276978 <GO>}

Well, Ricardo, thank you for your question. This is Raphael speaking. As you said yourself, the physical world is very different from the electronic or the e-commerce world. We have two companies with independent management to guarantee the maximum electricity and the maximum profitability of each company. Roberto will talk about the competitiveness.

A - Corporate Participant

Hello, Ricardo. Thank you for question. In fact, yes, by identification in this fight for five individual stores as well impacted by the electronic world as well. But, we have been pricing our products well and we have been selling well without depreciating the margin of the products. And I think we are getting through this period well, adding to sales with no impact on the margin.

So, that's all, now we will talk about the Mini market. Now regarding the Mini Mercado, as I have said, we have concluded the transformation of these stores in the second quarter. So, the sales performance was little bit affected by -- during the time of the conversation where you have to close down for some time. So, this does affect the sales. But after the conversion what we have seen is a significant growth for the number of the plants, almost 20%, and also an increase of the average ticket. What is very much inline with what we had mentioned when we carried out the products of these stores.

So, our enthusiasm is great. And I think we have a store model, which adds more value to the consumer, and it adds margin to the business because we have a better sales mix. And also, it is a very good opportunity for expansion of the products, even in large cities.

Now, we have a clear focus in some assortment adjustments, but we are satisfied with the performance, and the focus of our business now will become as I have said, on expansion. This next quarter, we will be opening up another 19 stores, and by the end of the year, we should deliver about 50, 55 new stores with this model. Thank you.

Operator

The next question from Tobias Stingelin from Santander. You may proceed.

Q - Tobias Stingelin {BIO 1557190 <GO>}

My first question, I want to go back to -- I'd like to understand, when you presented -- and compared this to moment the day, what has happened to decrease in my accounts? The revenue has grown 2% the net revenue in the second quarter and the margin has improved, but it dropped in the following year. So, what -- how could we see this, can you grow and improve the profitability? That's the first question.

And then, in Via Varejo, when we're going to start to see more aggressive synergies in expenses? Raphael talked a little bit about the cutting expenses et cetera, I'd like to know little bit more about that. And I'd also like as I said, and I was more optimistic with Raphael, he believes in economic growth, but I'd like to know what the misinterpretations here are for the business?

A - Corporate Participant

Hello, Tobias, thank you for your questions. Regarding the growth, the growth of 2%, it's net revenue, which is effective. When we talk about gross revenue, this will give you a more approximate sales number. In the e-commerce, this growth is about 13% -- mentioned, 14%, 13.7%, and the -- 10% and in the wholesale regarding the difference of the current scenario and the new e-commerce Pontocom, neither macroeconomic context was forecasted that time or the behavior of our competitors. So, -- underwent tremendous promotion. So, I think that not regarding this e-commerce has been very attractive, particularly in times of crisis, like in our more mature markets, in the American, even in times of crisis it has continued to grow and here in Brazil as well.

So, this is very important. So, it's growth -- physical well.

Regarding the competition, there are some important positions, and we have had to make choices. But it is important to mention once again the -- We are the first to take more radical position perhaps. And we will develop this business. This is a very a profitable business. And we have decided to win. So, it's further -- continue to lose, but no problem, but we will continue again to improve commercial conditions and so win this battle.

It is very healthy. There has been a tremendous development of technology in TVs, and we have only one with this. So, we are trying to add value for our shareholders, generate cash and maintain the company in profit, this is what we are going to. We are going to continue to generate profit. And that is any price, but we will certainly be the winner.

Q - Tobias Stingelin {BIO 1557190 <GO>}

And is the environment improving, do you think?

A - Corporate Participant

Well, the aggressiveness is increasing. Several players are working with discount of 10% and 12%, if you pay cash or 15% and different categories. And so, this shows you close to 20% above our commercial gross margins. So fortunately, we have continued to grow, we have several growth channels, and we have new businesses, the new models. We have the B2B. And we have added to the company throughout the time.

And so, we will continue the growth and the profitability and generating cash.

Hi. I will be making comments now. Tobias, thank you for your questions. We are very excited, we do believe that growth with deflation of 12% is a good growth. Therefore, we are excited, we are confident so much so that our expansion plan is an aggressive expansion plan. We are to open 50 to 60 stores.

As Enéas mentioned, we believe in Brazil, we believe in organic expansion very strongly by Casas Bahia and Ponto Frio. So, we are really excited, and we're very much inline, everybody here is inline, very excited with growth that we are planning for 2012.

As for synergies, synergy is important. And it's important to understand as well that we gain a lot of synergies last year. Some of these synergies are structured and scheduled to happen over the second half of the year and also along 2013. One example is - positives. From the moment, to make a decision to build a warehouse or to having implemented and deploy everybody together with the Group, it does take some time. And there is another sector as well.

We are taking synergies, but we still have to wait for CADE's decision due to APRO restriction. Because of APRO, so far we haven't had full synergy; we captured a lot of synergy but not 100% yet. There are several fronts, both Pão de Açúcar and Pontocom in order to seek synergy with the Group. Please bear in mind, -- the company when it started in 2010, it was very different. And now, we are not really evolving at the company level.

And a couple of things, we only appear in the near future. And please remember, when it comes to expense less synergy, as we said before, we set a cash committee that will be reaping good fruit. And now Jorge, will give you more details both on back office synergy, logistics, a couple of things as well and also the cash committee.

A - Jorge Fernando Herzog {BIO 16205117 <GO>}

Hello, Tobias. This is Jorge speaking. Good morning. And thank you for your question. Just highlighting what Raphael mentioned before. Over 2011, we were strongly focused on synergy implementation.

The synergies are still bringing return over 2012, in other words, the first half of the year, particularly the first quarter. However, as of mid-second quarter, we want to be focusing on expense reduction to check where the company can be leaner.

With that initiative, we pinpointed a series of actions, and we have already started to deploy or to implement them over the second or the third quarter. However, may be one of the stronger or most aggressive action is the cash committee. The cash committee also known in the market as expense committee dedicated to the group is responsible for assessing each and every expense taken by the company. Any expense that should be taken by the company will have to go through this committee. This is mandatory. So, they can assess the expense, approve or not the expense, and finally will be working as Raphael mentioned, in order to analyze possibilities for improvement, any improvement that can be implemented in order to provide a better visibility of everything that takes place at the company level.

We are very confident. We already have expertise to work under this business model. By the way, this group had the implementation of this committee, a couple of years ago with very interesting results. So right now, we are implementing the same model at Via Varejo. And we are confident that the outcome will be very favorable. Thank you.

Operator

Our next question comes from Mr. Gustavo Oliveira from UBS. You may proceed.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone. I have a couple of questions. First, I would like to start with Tambasco. Tambasco, you mentioned a lot about the seasonal effect in the second quarter, usually Easter effect. I'd like to understand if the seasonal effect also affected margins, the company's margins when it comes to be positive or not, is it the marginal guidance that was 7.8% top range, could you share the experience owning to the fact that retail and foods are stronger?

A - José Roberto Coimbra Tambasco

The seasonal effect, well, I understood. For Extra and hypermarkets, the Easter effect is really strong. Nothing that might change margins, I would say. Any changes in the margins are positive. If you consider not exactly in this quarter but we had already told previously a reduction in some categories of not basic products, table foods like rice, beans or in sugar. These are lower margin categories certainly.

And these categories have strong share in our business, owing to the change in consumer behavior.

On the other hand, there is an increase in other categories that I mentioned before. And these categories are not only with a higher value added but also higher margin. So, this is what really brings even better gains when it comes to the margin mix. Obviously, the market when it comes to foods does have this very ferrous competition. At our last call, we had already mentioned stronger aggression by some competitors -- weaker. And as a result, we have a new focus on negotiations with suppliers.

So, there is increased margins relating to the product mix and also by stronger efforts with negotiations with our suppliers, so we can lower our cost.

And for the guidance Gustavo, it's important, but we are confident to deliver results within our -- guidance. Please, recall that for GPA foods that margin is between 7.3 and 7.8. Obviously from the moment, these results or the quarters show good results to be become more confident. And in the upper part of the guidance and therefore close to maximum limit, but it's too early to mention any results above the guidance discussed previously with you.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you. And second question is to Bill Medo. For the last one and a half years, you invested a lot in Asahi. You changed the mix, you have more positive results now. Are you ready for a more aggressive expansion in area, considering the next two or three years? And what kind of growth would you implement?

A - Corporate Participant

Just as last year, we were very strongly engaged in those internal change, be in terms of commercial positioning, product and mix. Ever since last year, we are extremely concentrated in getting expansion ready. Our goal is to close the year, so that at least in the next three years we can have these points of sale guaranteed.

Obviously, we had some difficulties at first, but there is a demand. With the new changes in the market, we need more automated operations, fewer staff in the store level and also more automation resources. So, with this, there is an structure in our current complex 25,000 square meters built, so there is series of actions. So, we can have aggressive expansion. They have already been taken, and we are ready both for the second half of the year and also 320,000 to 380,000 square meters over 2013 and '14.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

On a year basis?

A - Corporate Participant

No that's the total number for sales, 680,000 to 700,000 meters; one of the differentials of wholesale. Is your higher capacity to have the warehousing at a store level. You don't use logistics so much. Wholesale operations under the new market, 80% of suppliers directly delivere to the units. And therefore you eliminate one step of the operation and you can have a lower good cost basically and you can be consequently more aggressive.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you. The last two questions have to deal still with electro electronics. When it comes to the promotion and competitive environment, last year, you became leader. It is very interesting, and you launched Black Friday in Brazil, in the Brazilian market. But first, it was very shy not so much aggressive in marketing. And that's a promotion and depended on how you work on it.

Once again it can build a lot of creativity, how do you plan events for the second half of the year including Black Friday? So, that's my first question. And the second question for the Tambasco and also to the Bill Medo, I'm sorry, to Quiroga. It has also has to do with his business. How sustainable do you think is that e-commerce business and the standalone model? When I listen to the talks and to the questions during this call, I think a lot of the -- in 2006 or 2007 when they were about integrate it. You better considering this, or I know decisions made last year were better difference, but there comes a time that logistics or services only end up by not being the single value for consumers. So, how do you envisage the strategy to address all this model for -- on a standalone fashion?

A - Corporate Participant

I'd like to give the floor to Quiroga answering e-commerce, and then we can address the electro electronic market and...

A - Gérman Quiroga

Okay. Gustavo, good afternoon or good morning. Good afternoon, it's afternoon. First of all, there is no doubt about it. In future e-commerce will prove to be outstanding business, all my estimates on a mid to long term basis are focused on this business, and we've been -- time more mature market, there is no doubt about it.

Now, there is at time the circumstances in Brazil associated to a global macroeconomic scenario. Well, the more in doubt people are the better. Those who are certain will have a great future. I'm very confident this is really fantastic, highly reliable business. When it comes to macro consumer, the trend is to be more present online, the new generation, younger generation were born in the digital environment and they are more used to buying online. So, the purchase habit in more mature market under several categories is predominantly digital.

And that will happen in Brazil as it is already happening. So, days of sales are outstanding in this kind of business. And over time, we'll have amazing benefit.

Now, competition is really fierce now, right now, and we have to maintain the margins. But we have to establish a limit. And once again, what I said is important, recently we set as a guideline this being of our cash generation and profitability a top priority, which we were trying to match both factors, but due to competition or competitors' attitude we try to work on the best mix possible. The choice was to generate cash and be profitable. In our account, this will still provide significant growth, so significant growth, cash generation, and profit. In B2C, we grew 40%, so we'll be putting this growth aside in order to bet on what we believe to be more important to shareholders, which is cash generation, value generation and above all, customer satisfaction.

We are strongly going to deliver an increasingly better service to our customers, so they can be more liable to our platform.

Now, Black Friday, we had a historical record level, we want excellent profitability with exceptional discount prices. We were attentive to that over time, and we could be profitable associated with very high sales volume. And as to our competitors, I'm not going to make a lot of comments on what they did or did not do. But what I can tell you is that we're just beginning to read these benefits of multichannel. And in that sense, there are many more things to come. And global players are really surprised with what we've achieved.

Some companies works -- they standalone, but they don't have the benefit of multichannel, so that's why we work together as a group, so that we can capture the beauty of multichannel and e-commerce. So, we are getting closer to our data business integrated with the -- the Electro World and we'll be getting the fruit in years to come. And I'm sure that our results will show that.

I don't know if I was clear enough, but this is really amazing scalability, and result generation is amazing, and that's the future. So, if you have doubt about it, great. Okay, we'll be getting even more money in the future. Roberto is going to make some comments now on the electro electronics market.

A - Corporate Participant

Gustavo, this is Roberto. Thank you for you question. In terms of competitiveness expectations for the next quarter, we expect this scenario to be competitive just as it was in the last quarter. And maybe including slightly over the fourth quarter. We're very well commercially prepared as a company in order to go through the third quarter, no matter how competitive it is. So, we are not concerned with the level of competitiveness we might see in the third quarter, we're very well prepared when it comes to pricing to withstanding.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Why do you believe that things will be improved in the fourth quarter compared to the third quarter?

A - Corporate Participant

We believe there will be -- well the economy will be more heated compared to the second and the third quarter.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you.

Operator

Our next question comes from Andrea Teixeira from JP Morgan. You may proceed.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Thank you. Good afternoon. I just like to have a better understanding of the third quarter. By the way, you've just mentioned a stronger operation in the fourth quarter, a better recovery in the fourth quarter. Just like to have a better understanding of the fourth quarter. And as a follow on to previous questions, as far as I understand, in e-commerce we believe there will be 4% EBITDA margin and 2% net margin, which would be something around or related to stability, I didn't understand exactly what it means? Is that to Via Varejo as a whole or are you considering or very conservative for Via Varejo, but does the same apply to when I saw, the virtual apply by CADE.

The second question has to do with what Bill Medo mentioned about area expansion. I believe the Group as a whole is turning a page, and I want to know you beating up your area strategy over the next 18 months. What about the increase in areas, does that apply to the whole Group, 320 to 380 over the next two years? I am just trying to reconcile the figures in order not to have any further questions?

A - Corporate Participant

Thank you, Andrea, thank you for your questions. What do you expect the margin in electro business is higher than 5%, which is close to guidance of 5.2 and 6.5 as EBITDA margin this year. As I mentioned in the call, the margin is around 4%, but that's for cash on carry Assai. So, your outlook, this is the outlook for the future. And then we are confident that we will be delivering our results within that target. Okay? Quiroga will add to my comments and address e-commerce.

A - Gérman Quiroga

Last year, our EBITDA margin was greater than 5, we believe that market, when it comes to adequate competitiveness level, EBTIDA margin for e-commerce could be around 9%. Now, the market or competition, well, this is higher than what we deem to be reasonable. So maybe, we won't be able to run that range this year at 9%, but that's the level we believe to be perfectly feasible when it comes to adequate competition, last year was above 5 and once again, we are committed to generate profitability at the bottom-line to grow and generate cash to shareholders.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Quiroga, what about this number, 5 and 9? Do you have these numbers after discount receivable, receivable discount? If this is after discount and receivables, the financial part is lower than EBITDA.

A - Gérman Quiroga

Expenses -- at a current rate are about 3% of our financial cost for operating purposes. Minus 2, just to clarify minus 2.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

So, Quiroga, thank you very much for the explanation. Just to clarify. So, will that be a circumstance, does that apply to, will the management have a perfect expense allocation considering automotive channel that invention that everybody likes and I understand it. So, in this part, could you have a perfect allocation on distribution centers, is it separate? So, the whole allocation, when it comes to cost, suppliers, the whole structure today, if Via Varejo not the Via Varejo on another protocol, correcting myself, is -- converse spin-off, would you have the same profitability?

A - Corporate Participant

Andrea, excellent question. [Technical Difficulty]. Well, Andrea, that was an excellent question because it gives me the opportunity -- can you hear me Andrea?

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Yes, I can hear you?

A - Corporate Participant

Just a technical issue. Good question. Because it gives us the possibility to answer. There is music in the background, but that's just to make things happy. Right from the beginning of 2008, when we started operations, our company was totally separate, all costs allocated, we received 28 million of --- to start with. And so, everything was subsidized by own company.

And so, this shows how successful we are now. We have nothing subsidized. What we have is the work to find intelligent options. All our stocks and the purchase of the merchandise, all our work is independent. It's everything we do ourselves. Sometimes we have some suppliers; we can sometimes back through the same -- through the group.

We might have opportunity to do that. Otherwise, we're totally separate.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

And then, what is your expectation to reach this level of EBITDA margins?

A - Corporate Participant

If the market is healthy, perhaps this is a year that we might reach this level. So, let's hope that the -- that we can do that, and we can beat the competition on this.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

And just to comment, what you're observing now, we have seen a lot of news in the media about Father's Day et cetera, what about the behavior of the consumer. Now, I'd like to know you are the greatest retailers in Brazil. So, give us an idea then how the consumers are behaving?

A - Corporate Participant

But things are great and we have done this, we have had a flow which is been very sustainable throughout the year.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Thank you.

A - Corporate Participant

This is Roberto, the physical world, also we have a very good client flow. I think but we are gaining clients as well.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Thank you very much to all.

A - Corporate Participant

Well Andrea, let's talk about the area expansion. It's important to segment the Via Varejo and the GPA Foods. The GPA Foods, our estimates is to grow about 6%, 6.5% as -- has just said. And this in sales area which accounts for 90,000 square meters of area expansion. And we are quite confident to this expansion in the first half of the year. We opened several stores, and we have another 14 stores under construction, we see no problem in achieving this level of growth in the Via Varejo.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Well just to know, the end of this year or the end of next year?

A - Corporate Participant

No, this year, 90,000 meters compare the end of 2011 would be area of at the end of 2012.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

And for GPA Foods?

A - Corporate Participant

No for the Via Varejo, we have the -- we will open 50 to 60 stores as Raphael said. It is a lot important to say that Via Varejo, we have 18 stores now under construction. So, this puts us in the right direction to complete this expansion throughout the year. It is also important to remember the concentration of the opening stores in the second half of the year is always greater than in the first half of the year. We have seen its throughout the last few years. This is a trend of the retail because obviously you are going to make a mess of the heating up of the market at the end of the year.

This is Enéas, again. I'd like to go back to your first question regarding the recovery in the second half of the year or the fourth quarter. This is frequent discussion, it seems, and it comes to all of us in our different businesses. I would like to underline our view for the second half of the year. We have a vision, as I have said to you, which is optimistic. The vision of people who believe in the strength of the market, the consumption market, the domestic market of Brazil, this is where we are based, this is where we operate.

This is a very strong market. It is the market, which is developed greatly in the last few years because of the migration of social process, because of the better income distribution, because of the increase of the minimum wage because of the increase of real income, because of collective bargaining processes, and we also believe in some leverages for this in the second half of the year.

First of all, in August and September, it has a more favorable calendar with more strategies from last year. And this should help the third quarter.

Secondly, we have been working in all the businesses. And the Via Varejo has been set by Raphael, he has worked very hard and done very structured work to reduce expenses. A lot has been planned, synergies which are being implemented, and obviously respecting all the restrictions and the CADE. But, a lot has been done. And the work as I have said, has been doing instruction by Raphael, Jose, Claudia Roberto himself. So, they all fully engage that I have seen the plans that they have prepared and actions which have been undertaken, and we truly believe that they will be able to achieve that they are doing it.

So, to read the benefits this year still, and from then in recurring fashion. And for the other businesses as well. Assai has cut expenses, and working capital last year was more than 3 million, cuts in working capital, retail has already done its homework and done this in a very controlled way.

The cash committee and the expense committees have not been dissolved. So, all of this leads to capital expenses and therefore, gains efficiency, which will increase profitability, the profitability of each one of the business but also bring about even greater competition capacity, which is becoming more and more necessary. And we will compete as we always do in every micro region and every place where we are present and in e-commerce in a much broader fashion. And besides that we also believe strongly that these measurements of the government through fiscal activities, the white line and -- months ago has been doing and his willingness to take activity, to take steps to guarantee the strength of the Brazilian consumer market, lead us to believe strongly that the scenario will be better that the heating up of the economy will come, obviously seasonality has a lot to do with it. But what we do see is an awful of a lot of bad news, particularly because of the bad news coming from Europe and still from United States, and also questions of delinquency and increased debt.

And this brings about the crisis of confidence of the consumer. And we think that today's much more, the confidence crisis than effect or the consequence of some the fundamental. Because the fundamentals are very strong and good. We believe that this is enrollment to grow, but companies must keep their investment, generation of jobs so that the consumers' market will continue to be strong, the Brazil will continue to grow. This is not a moment to stop. This is what we believe in.

And the fact that with these steps we will have a capacity of gaining market share and improving a relative position vis-à-vis the other players those who complete with us in each one of the businesses. We have a very favorable position because of our scale, our leadership position. If we're not leaders, we're second; we're runners up in the segment.

Therefore, we have the capacity to have a very profitable and growing second half of the year. We will have Black Friday or red alert, we will do everything, which is necessary to guarantee a healthy growth with profitability, and we will maintain our organic expansion. It is time to grow based on a strong capital structure, we will not give that up, we will now give up our liquidity or good cash, low costs.

We have been working more and more on the installment with interest -- with not bearing interest and reducing the working capital. We are also thinking a return on our own capital. All of you have heard the rest of the team speaking; they are full of energy professionals of great competence with much experience in retail, well organized with autonomy, and power, with working well in a group and in team.

So, I am sorry, but I made the best of your question to once again repeat all the trust that we have in the domestic market. And I want to wish and hope that the employees in all the different segments will also have this belief and contribute so that we will transform not only in the second half of 2012 but this moment of the country, which we believe will help the country to grow, generate, value and jobs and follow on. Thank you. Thank you for your questions.

Group's call is now finished. The team is always at your disposal to answer your questions. Thank you for participation and have a good afternoon.