Q4 2014 Earnings Call

Company Participants

- Christophe Jose Hidalgo, CFO
- Daniela Sabbag Papa, IR
- German Quiroga
- Jose Roberto Coimbra Tambasco, EVP
- Libano Barroso, CEO
- Peter Paul Lorenco Estermann, VP
- Ronaldo Iabrudi Dos Santos Pereira, CEO
- Unidentified Speaker, Unknown

Other Participants

- Alan Cardoso, Analyst
- Andrea Teixeira, Analyst
- Bernardo Cavalcanti, Analyst
- Gustavo Oliveira, Analyst
- Marcelo Lima, Analyst
- Richard Cathcart, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant, Analyst
- Vagines Salivayey, Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to GPA's conference call to discuss the results of the Fourth Quarter and the full year of 2014. This event is being recorded -- broadcast via webcast and it can be accessed at www.gpair.com.br where you will find the respective presentation. The slide selection will be managed by you.

There will be a replay facility for this call soon after the call is closed. We would like to inform you that the press release about the Company's results is also available at its IR website. And this event is being recorded and all participants will be in listen-only mode during the Company's presentation. Afterwards, there will be a Q&A session when further instructions will be given. (Operator Instructions)

Before proceeding, I would like to mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of GPA's management and information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore they depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future results of GPA and lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to turn the floor over to Mrs. Daniela Sabbag, investor relations officer.

Daniela Sabbag Papa {BIO 22210225 <GO>}

Good morning, everyone. Thank you very much for participating in our call about the Fourth Quarter in year of 2014 results. I would like to introduce the other officers of the Company who are present here -- Ronaldo Iabrudi, CEO of GPA; Christophe, CFO; Libano Barroso, CEO of Via Varejo; Quiroga from Cnova; Belmiro from Assai; (inaudible) Multivarejo; Edisi [ph] from Pao; Renato [ph] from Convenience [ph]; and Robert [ph] from GPA Mall; besides other executives that have joined us today.

Before starting the presentation, I would like to give the floor to Ronaldo for his opening remarks.

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

Good morning, everyone. Really when Daniela starts to mention names we see that we have so many companies with so many different formats going to (inaudible) Libano with Casas Bahia, Pontofrio. And the mall that helps in making the Company more profitable in the business of Ezra [ph] and also Belmiro with a strong growth of Assai together with Cnova, which was something that we launched last year and of which we are very proud. So thank you very much to all of you.

I would like to make a short introduction in order to highlight the points that I consider as the most important regarding the results for 2014. Then that being said I will give the floor to each one of our officers to say a few word about their specific business as we expected 2014 was rather complex as we expected. And when we drafted our strategic planning or budget, we prepared ourselves for this and we prepared each one of our businesses with a very clear definition regarding the strategy and action plans. And with specific targets to be attained for each one of our formats in order to be able to cope with the year.

And I believe that all the leaders that we have around this table today, we assured or they assured the execution of the plans and because of the solid work, we were able to deliver the result that you have already seen and that we will be talking about during this conference call.

When I talk about results, just to mention a few points that are important in our view. And that show how we have evolved in our profitability. We have posted growth, that was very important for a year such as '14 an EBITDA of 19-something %, almost 20%. And another fundamental is for the Company is net income. And we had here a growth higher than 20% as well and another fundamental point mainly in the situation such as the one that we are living today in Brazil.

It is fundamental for the Company to have the cash that we have. And we closed the year with net cash more than two times or 2.4 times higher than the one that we had in 2013. At the end of 2013, there's ongoing search for profitability that we have delivered in 2013. It goes on and we also worked very strongly along these lines, that is to seek to do better with the same amount of money. And do it better. And we can see this reflected in the organic growth of the Company.

This was a year in which we have the highest growth in the Company ever with the construction of an additional 212 stores divided among all our businesses. All our businesses is expanded during 2014, no exception.

And I think these remarks are important as a backdrop because, in our view, this further reinforces the leadership of the Company and the group and the commitment that we have all made in terms of growing in all our different formats and banners in the different regions so as to expand the footprint of the Pao de Acucar Group all over Brazil.

Besides profitability, we are very much focused and you will be able to hear about this from each one of the businesses on our commercial area, our sales. And we have posed important growth and important evolution in all our businesses vis-a-vis the commercial area, mainly in the mall area. And the only business where we face a bigger challenge was in the hypermarket segment. And I would like to highlight and we will be getting into details.

I would like to say that we have a detailed plan for the hypermarket business. And that was implemented over the last half year in the hypermarket that we have in Sao Paulo. And we are rolling this out to the other regions. And where we implemented it fully we already see a positive trend levering by the indicators that we track.

And I believe that one of the most important points and that is present in all our businesses is our management process. I think that the Company has been evolving consistently in the discipline of following our targets and the execution of our action plans in the drafting of adjustments because our business is very dynamic. And very often, you build a plan and the next month you have to fine-tune it.

But what we see is that this team has been working in a way that is very much connected to the market reality and tracking the implementation of these plans. And we roll out the plan at all levels of the organization. And the method of drafting about it and tracking our targets. And doing the follow-up of the plan at all the levels of the organization, everything has allowed us to reach in 2014 the results that you have already seen and that we will be talking about during this call.

So just as an introduction for each one of the officers that we have here, CEOs and other officers, I would like to give the floor to Christophe. And afterwards, each one of the business owners will be talking about their specific business.

So Christophe, you have the floor.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you. Good morning, everyone. Let's start the presentation with the main financial indicators of profitability for 2014 for the consolidated group.

Slide number 1, you can see that net sales in the quarter reached BRL19.7 billion, a 16.2% evolution on a year-on-year basis for the full-year. Sales exceeded BRL65.5 billion, also a strong growth of 13.3%. And the solution is explained for the year by the strong organic growth. And we opened 212 new stores, which means a very strong acceleration in our expansion phase vis-a-vis what was done in the previous years. And this growth is also explained by a good performance of the sales of the group and the like-for-like sales of the group evolve at the same phase of inflation, that is to say close to 6% in the effect of the first consolidation.

And the profitability measured by the adjusted EBITDA also showed an excellent behavior. The EBITDA for the quarter was 21.7% and at the level of 20% for the year as a whole, closing the year with close to BRL5.4 billion and a margin of 8.2% of sales. And this margin means an evolution of 40 basis points year-on-year.

And when we consider that the mix effect has been hitting in a way this growth or impacting this growth with certain extent unfavorably. So this strong improvement in profitability is important to say that it translates the strength of our model, of our business portfolio, which is multi-format and that reaches a higher balance consistently. And this is translated in each one of the business lines. The gains of efficiency are significant in our business's adjusted net income, which BRL919 million and the evolution of 21% in the quarter in line with the annual growth.

The annual growth was 20%. Adjusted net income exceeded BRL2 billion. It was BRL2.084 billion to be more precise.

And the good performance of the Company, now going to the next slide has been translated into a strong cash generation and this cash generation for the full-year reached BRL2.5 billion. And this, in spite of having maintained and expressed as a high-level of CapEx, we invested this year almost 3% of our sales, 1.6 [ph]. And the financial results reached -- well, it was aligned with our expectations at the beginning of the year 2.3% of our income.

And it's important to say that in this environment of high Selic rate. And as our debt is very much pegged to the Selic rate with a strong deleveraging route have been able to contain the effects that are brought about mechanically by the Selic rate.

And now going to the next slide, we understand as one of the main factors for the deleveraging of the Company, the gap between suppliers and inventory that has been improving for over 19 days for the full year and this represented a liberation of cash that was superior to BRL2.8 billion. And it is important to say that in different proportions. But all the businesses they have brought about a significant contribution to this improved efficiency of working capital and Assai opening new stores. And of course, this has an impact on working capital. In Assai, this context of a strong opening of stores was able to improve its cash cycle in a significant fashion.

As I said before, on the following slide, 2014 was a year of acceleration of organic growth. We opened 212 new stores in the full year, 117 were open in the last quarter. And I would like to highlight in the food area seven Pao de Acucar stores. This is very significant and offering the opportunity of new openings of this premium segment, 31 Minimercado Extra, according to our strategy of saturation of urban centers especially Sao Paulo for Assai almost half of the openings in the last quarter.

In non-food, we have Via Varejo. We opened 60 new stores in the last quarter of the 88 opened in the year. And we closed the year with a little bit more than two dozen -- sales units scattered throughout the country.

And now I would like to give the floor to Roberto to say a few words about the evolution of our malls. And I would like to say that the contribution of malls becomes more and more relevant. 2014 was a year of very good contribution by the malls. And this further reinforces the balance of our business portfolio, which is multi-format.

So Roberto, could you please talk about our GLA.

Jose Roberto Coimbra Tambasco {BIO 3635014 <GO>}

Good morning. Thank you very much for participating in the call and for having me.

Once again. Good morning. It's a pleasure to be here talking about malls. We closed the year with a growth of GLA of 37,000 square meters and this generated 320,000 square meters, generating over 20 new undertakings, new ventures. And with a comparable GLA, we consider this as being quite aggressive, very good. And we will be continuing to work in that direction.

The focus for the next few years are the remodeling, also in the existing models, improvement in the level of service. And the objective will be to generate more activity for the stores in the group and reach better results for the Company from revenues and new revenues coming from GLA that we will be contributing to a higher profitability of the Company's assets. And I think it makes all the sense in the world for the Company.

And once again, I thank you for having me. And I would like to give the floor to Christophe back.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Roberto.

Before giving the floor to Multivarejo and Assai, I would like to say a few words about the performance of the non-food. BRL9.8 billion plus 5% in growth, BRL34.7 million for the year and 9.2% growth, adjusted EBITDA closing the year at 8.1% of sales, a high-level for this kind of activity. And we have been able to evolve our EBITDA by 9% for the full-year.

Adjusted net income BRL511 million relatively stable vis-a-vis the previous year with 5.2% of adjusted net margin and for the full-year exceeding BRL1 billion, that is to say BRL1.1 billion growing by 7.2% in the adjusted net income. And the adjusted net margin exceeding 3% to be more precise reaching 3.2% for the full-year.

Now, I would like to give the floor to Livio [ph] for the Pao de Acucar..

Unidentified Speaker

The sales performance have grown higher than inflation and the participation of this banner in sales service according to the Nielson view [ph]. And with a constant growth for many consecutive months and a strategy of competitiveness of well-executed activity, the expansion this year -- the organic expansion with conversions 121 new stores and customized over 60%.

And especially with the retraining of all our store managers with the improvement in the quality of service and training over 14,000 employees under this banner, some services have been expanded, reinforced 13 stores to 125. And the number of employees in the most important stores, also the range of differentiated imported products was expanded and grown higher than inflation with an important growth in the number of clients and the improvement at the level of service with the extension of assortment.

For 2015, the banner will continue to focus on the levels of competitiveness, service levels more differentiated products, organic expansion. And the increase in the delivery operation. These were the main points of the Pao de Acucar banner.

And I would like to give the floor to Lujan [ph] now.

Good morning, everyone. This is a challenging scenario for our area. Since the second half of last year and the food business benefit from the difference in the consumer behavior. We also have to compete with specialty stores and non-food. And the strong basis for comparison for the second half of 2014, our performance is slightly better vis-a-vis T3 or Q3.

The non-food was impacted by a strong action of food and non-food like a rendezvous of brands for Ete [ph] and with a stronger communication strategy and a higher recovery in the food area and initiatives that we started in the beginning of the second half of 2014.

A recovery plan for our dynamics considers many initiatives that were carried at the end of last year. And the first one is to keep our competitiveness. And this is part of the strategy of the Hyper Extra format to be competitive in all areas every single day. And we have to ensure this competitiveness store by store, category by category. And the prices are not discussed in the Extra format. And we have to ensure our competitiveness every single day. We have exclusive branch that participate in the economic divide so to say such as Calita [ph].

And it is important for us to have this new communication dynamics with the new promotion communication that we started last year. And this is fundamental for the Hyper format, attracting clients by means of this multiple offering communication and a very strong TV presence every single week.

And also the distribution of orders, et cetera. And then the modernization of our stores with the redefinition of commercial concepts of service, with a redefinition of the circuit or the loop between ours and the clients. And the need for not to waste any time and to have basic products and staples at affordable prices and perishable products with good quality also a strong performance in our services such as the click-and-collect concept. And by this click-and-collect system, the clients can come to the store and pick up their product, the products that they have acquired.

And we have the Club Extra as well. It's a loyalty program that we are establishing in the financing solution by means of Extra Club. So we see a very strong recovery in our sales dynamics with regard to a number of clients and volume.

Now, I would like to give the floor to Renato.

Thank you, Lujan. Good morning. I would like to talk about the neighborhood stores and this continues to grow consistently and importantly, like-for-like higher than the market and higher than inflation.

In this last quarter, we opened 31 minimarket stores and 11 Minuto Pao de Acucar, that is to say 42 stores in the quarter and 100 in 2014. The model has been going through adaptations in the Sao Paulo market, trying to meet the needs of these clients in terms of practicality, assortment, promotions, always delivering a good option for a more frequent buying habit in the week. The results are higher than the market, integrating the interior of Sao Paulo more consistently in the second half of 2014.

In the range of 150 kilometers, we reached Catucaba. And we further increased openings in the seaside of Sao Paulo and divide to Paraiba.

In 2015, we will be opening stores Socia Des Discompos [ph] Cacapava, Dulvadir [ph], Jacaraipe will be starting in 2015.

Pao de Acucar, the more premium format of neighborhood closed the Minuto with 15 stores. And we started in Q4, continued in Catucaba. Since the first store, it was very well adapted to the A and B buyers. And in the last quarter, we opened stores in more noble regions of Sao Paulo such as Jardim, Jardim Paulista, (inaudible).

So very well adapted to these regions, very convenient. And we are having a very good saturation in this region.

2015, we will continue to identify the format in the Sao Paulo region. And by the end of the first half, we will be starting operations in the northeast. We believe in this region there is a market there, a growing market in the cities with higher demographics and higher purchasing power. So these are the concepts of the neighborhood stores.

And also leave you with [ph] Assai.

Unidentified Participant

Thank you, Renato. Good morning.

Q4, as we've said, in Assai keeping a strong growth phase based on the same-store performance. And due to the fact of the expansion of Assai in Q4, we grow our gross revenue -- gross income better than the previous year and the important highlight for reductions dropping this quarter at 10.2.

Assai as you saw in our results suffered the effect of the fifth Abasico [ph] or the basic products growing 37%, this means an improvement of 0.5% at this point and EBITDA level of 3.42.

In Q4, we opened four new units, a format that has a bigger selling area. And we have been trying to extend our footprint of Assai of these four stores, four units in four different states -- Ceara, Sao Paulo, Bahia. And Pernambuco, which added over 18,000 square meters of selling area.

The result of 2014 continued to be strong. Assai closed with 32.7% increase in gross revenue and the gross income at the same level of last year improving expenses in spite of the expansion plan and net of the effect of the basic basket 10.38% and the adjusted EBITDA growing by 37% in the year higher than net of inflation about BRL1 billion growth, with the average ticket meaning BRL40 million [ph] in new operations, the result over 2014 vis-a-vis 2013. And we reached 2014 up to three states and the opening adding over 50,000 new selling areas -- 50,000 areas in the new format.

Just to give you an idea, with this increase we closed the year with the average sales per store higher than BRL110 million. So in the last four years, 87%, on average BRL57 million four years ago. And today more than BRL110 million. The 32% in 2014 are in line with the growth in the last five years.

The CAGR of Assai the last five years is exactly 32%. And this format in 2014 we believe we have increased a major participation of the wholesale market. And we have been improving our position among -- in the ranking of the main wholesalers. And the outlook for 2015 we will continue expansion organic growth with five new units in the new format under construction. And we believe that the search for economic conditions will continue to be very strong in the Brazilian market.

And so now I would like to give the floor to Via Varejo...

Libano Barroso {BIO 4670536 <GO>}

Good morning. Via Varejo in Q4 2014 and the full year of 2014 we saw an important expansion, the record opening of 88 new stores in 2014, 60 stores in Q4. We reached an adjusted EBITDA margin of 10.4% for the year, 12.7% in Q4, which represented for the year a growth of 31.7%.

Adjusted net income reached BRL995 million with a 39.9% growth. And we generated cash amounting to BRL940 million, which allowed us to have a cash position of BRL4.4 billion at the end of this period.

We would like to highlight the search for efficiency and expansion for 2015. Our focus will be more and more capture or tap into operating efficiencies, seeking unit cost reductions. And leveraging our competitive advantages, our superior scale, our execution capacity, our operating efficiency, the strength of the Pontofrio and Casas Bahia brand and sound cash position. And tapping into opportunities and increasing our competitiveness.

And for this, we have created a project, which is called (inaudible) or grow more. And highlighting the main points of this project, we want to tap into the growth potential of Pontofrio, for instance, Casas Bahia group by 6% in sales in the year and Pontofrio minus 2.4%. But with Logos Carde [ph] it was marginally positive. And we have many initiatives here and we have to look for all the opportunities of improvement, assortment, layout of sorts. And working on a concept of a premium Pontofrio in order to test a new positioning, keeping most of the stores, tapering to a minus B and C classes.

The categories that will have our focus will be no doubt tends towards in Q4. This we will start the rollout for furniture. And we'll accelerate our strategic expansion mainly in the Northeast, Midwest. And north. And in 2015, 43% of the stores were also already opened in these regions. And in order to maximize the synergy with the group, implementing a multichannel initiative, we already have a pilot and four stores testing the click-and-collect together with Cnova.

And by the way, I give the floor to Quiroga now to talk about Cnova.

German Quiroga {BIO 17954249 <GO>}

Thank you, Libano. Good morning. I would like to talk about the results of Cnova for Fourth Quarter 2014.

It was our best quarter in sales. And cash. And ratio Q4 '14. GMV, the sales that go to our websites, in Q4 our GMV was BRL2.2 billion, 36.6% increase on a year-on-year basis. For the year, we had BRL681.2 billion in sales, 43.5% higher than the GMV of 2013 with a market share of 19.2%, according to public data.

Talking about our net sales, in Q4, we reached BRL1.8 billion with a 28.6% increase. On a year-on-year basis, 37% increased. The year in Q4, 12.4% market-based share in Extra and smartphone and tablet share for Cnova Brazil representing 10.5%.

We also launched the cdiscount.com.br in October and our marketplace at the Pontofrio and Casas Bahia websites and with very good results, strong performance in Black Friday and Christmas sales and also excellent level of service. In these two operations, we reinforced our multichannel operations. Last year, we've reached 100 stores operating click-and-collect in 2014. And we have over 1,000 opportunities to tap into this model that we are bringing to Brazil. And talking about the group in synergy, this was a very important year in which we tapped synergy into synergies at Via Varejo, logistics, GPA, Via Varejo.

And lastly, we had a very important cash generation for the period. Keeping our history, our track history of strong cash generation, strong growth, gain of share, cash generation are our objectives for 2015. Thank you.

Now, we would like to open for questions.

Questions And Answers

A - Unidentified Speaker

Thank you very much. Now we would like to open for questions from the audience. Could you please ask all your questions all at once and waiting for the Company to answer all your questions at once?

Operator

(Operator Instructions) Mr. Gustavo Oliveira from UBS would like to ask a question.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone. This is just one question to Ronaldo.

Ronaldo, could you give us an update of the initiatives that you are implementing mainly in hypermarkets in order to improve same-store sales? Could you give us some color about the evolution of these efforts? Are you focusing on the stores or do you expect growth resuming in the first or the Second Quarter?

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

Each one of the banners has a focus more on the client. And because of that we are doing quite a lot of work on competitiveness. We have a range of products that are basic products and that are staples, in fact. And they are very competitive. And we have a wider array. And the first one I refer to compete with Cash and Carry. And the second one competes within all the regions that we are many commercial actions, media actions over the week and many programs.

Inside the stores in terms of store activation compromise and the Puma Verde [ph] or the Green Lun [ph] and the Pravalid [ph] program, there are many different programs and many different measures that have been taken in this last quarter.

And the Second Quarter, second half of 2014. And we are rolling out starting with Rio where we have an important number of stores. We will be doing this in the northeast and the Midwest, too. We do have a very clear plan of what should be done and what is being done. And besides, as Lujan said, we are starting an important plan to remodel the main stores of hyper as well [ph]. And that we will be doing this very speedily over 2015.

So to be more clear, we see a positive trend in the flow of client into the stores where we have already carried out this initiative. And the same trend is not seen yet in the other regions where we have not adapted to stores yet. And with the program of remodeling stores, we understand that the first and the Second Quarters of 2015, we will be achieving our plan.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

In this renovation plan, how many stores will be remodeled? And in some of these stores, will you have to close them for a longer time in order to remodel them, mainly the big stores? Do we intend to have some partnership with some furniture developer, for instance? And what about your CapEx plan? What is the investment that you will be making in these remodeling's?

A - Unidentified Speaker

Well this has to do with investment. There is a major part, as Lujan said, that has to do with assortment, with the circuit in the store, merchandise. This is being built. And we know about our capacity of doing these things very quickly mainly in a moment in our economy like the one that we are living today. So this is an advantage that we have.

We are defining this. And as soon as we have this definition, we will be communicating and we will be telling about a project. I don't have anything to tell you right now neither regarding the number of stores nor the amount to be invested. We are still working on that.

Thank you very much.

Operator

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

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

This is Bernardo Cavalcanti from Goldman Sachs. A question to everybody regarding Multivarejo.

We see a very strong trend in gross margin changing the direction of this trend and a strong expansion. In the second half of last year, what is your expectation for gross margin gains? Is this going to go back to the previous trend for the First Quarter of 201? And for the full-year, do you have a projection for that?

A - Unidentified Speaker

In fact, our gross margin increased surprisingly because of the competitiveness that we have. Our competitiveness policy, this doesn't mean that it has been changed. It is quietly opposite because our competitiveness policy in the universe of Multivarejo has been reinforced consistently and will be maintained. So how can we explain this behavior of margin in the last quarter? Basically, because of many different elements.

The first one, the category mix and the banner mix that are favorable to the margin in the Multivarejo format, the category that bring about more margin are the ones that grew the most and the banners that bring the best margins are the ones that grew the most as well.

The gross margin, it has to do with the mix effect. The reinforcement and better negotiation as well in the last period of the year, I reiterate that it does not change at all our competitiveness policy.

And what is the outlook for the next period? I believe that the gross margin with which we ended the full-year and in Q4 and the full-year of 2014, net of the mix effect represents our expectation for margins for the future periods or in other words, the maintenance of the gross margin for the next period.

Q - Unidentified Participant

I'll just ask another question about other formats now. When it comes to a possible water savings rationing, particularly where you have more selling area exposure and any possible savings of a rationing of power, what is the impact on your operations maybe due to cooling capacity or water to clean the stores? What is the expectation should we have energy or power rationing this year?

A - Unidentified Speaker

Peter is our VP for Infrastructure. And since last year he's been leading what we call in-house as a crisis committee. So he'll give us some background of what we're doing and also the outlook for the future.

A - Peter Paul Lorenco Estermann {BIO 15380447 <GO>}

Thank you for your question. We've been coordinating a multi-disciplinary team. And it involves all our business units and have some important strategies. One is at the Company level involving all the actions with the rational use and also incentive for the economy and for savings of water and also power. We have been working on these initiatives since the beginning of the second half of last year with very significant results.

We also have very close follow-up with other agencies and bodies that track the circumstance related to water and power in most affected areas. And I'm referring specifically to Sao Paulo. And we have a base to work on our in-house plans. Then we also have significant focus on infrastructure.

In this case, basically for water use, our main stores especially in locations that maybe affected or directly affected. And in the first phase due to water shortage, I think you've been watching that closely, right? So we do have actions for artesian wells. We already are reactivating these existing wells. And we have a very consistent plan to have these artesian wells available for the major stores, particularly in higher risk areas in the greater Sao Paulo.

Two, about water, we are having intense actions in reservoirs in order to have more rational use of water and have a more significant stock of water to be reused.

As to power, in addition to internal campaigns, we have already started last year a strong program on energy efficiency. We have pilot studies that are very significant, results that are proven by evidence. And we have a speedy rollout for this year with significant impacts for the second half of 2015. And we also will have generators in the major stores.

We have many stores where we already have generators installed. And we just make sure that they will be up and running when they're needed. And we're also considering the installation of more generators in stores and buildings that operate for the Company.

Q - Unidentified Participant

Thank you, Peter. Thank you, Ronaldo.

Operator

Andrea Teixeira from JPMorgan has a question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Good morning. Thank you for taking my question. I have two questions actually and they are about CapEx. We expect to see total CapEx. When you think about CapEx reduction per square meter and also along the same lines, I have another question about the timing for story modeling and the new visual display of hypermarkets. Should we expect to see this move already having an impact in future months or quarters? And along the same lines, there was a move to improve working capital. Will this improved working capital help us or help the Company to have even better results now?

If we consider tighter finance with higher interest rates. So I want to know about CapEx, the timing of hypermarket modeling and also have a better understanding of financial expenses or interest expenses over the year. Thank you.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Good morning, Andrea. Thank you for your questions. I'll be answering two questions. And then Lujan is going to answer the question about remodeling.

About CapEx, you're right. We had committed ourselves to be more CapEx-efficient per square meter. And this turned out to be something complete over 2014. And we closed the year with an average reduction close to 9%. This reduction is very different from one business or one format to another.

There were businesses that were ready at a good level of efficiency. And therefore, the level of CapEx per square meter was maintained like in Assai, for instance. And we also have other formats in which we manage to be more efficient, lowering almost 20% the level of investment per square meter.

So this move to improve and to have better CapEx efficiency per square meter despite faster organic growth. This has allowed us to limit our amount of CapEx. And this reduction move obviously is not so permanent in our areas. But we do have room to improve the CapEx level per square meter.

Now, Andrea, your question about improved working capital, you can see the effect of the first consolidation of Cdiscount. If it's net of this [ph] effect, we can see that working capital has significantly improved over the year.

Basically with a well-balanced effort to lower inventory levels and our improved payment terms to suppliers, this action will offer you continued but a lower magnitude. Please bear in mind that we move from two years in which we had improved cash flow in terms of working capital at approximately 30 days.

There's always room for growth naturally. And this growth brings a mechanic reduction in our working capital. But we believe we are already getting into a positive cycle, a virtual cycle. In other words, our growth unleashes cash due to our working capital structure. And we can confirm that we will keep on making our best efforts in this sense. But certainly the magnitude will be lower compared to what we had in 2014 and 2013.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you, Christophe. What about the total CapEx for 2015?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

The idea is to maintain a level of CapEx similar to what we'd be investing so far.

I forgot to answer one of your questions, a question about interest rates stemming from the finance area.

Naturally, Andrea, we all know that select rate is going up, from 34% in year 2014 vis-a-vis the year 2015. And despite such increase and thanks to our efficient management and allocation of funds, we did manage to control our financial results by 26%. So we do have an advantage vis-a-vis the rates in the market. The advantage is 8%. And there is another point that explains the apparent performance -- good performance of the P&L.

In year 2014 or 2013, better saying, we benefited from a positive restatement effect approximately BRL25 million was captured in 2014. And considering all that, you can have a better idea of our efficient management of our P&L.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

And there was another question about story modeling. Will Iabrudi answer the question?

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

As we said before, we are working on the remodeling plan in the format for 2015. And we follow the sequence. But what we can tell you right now is that we are going to have two stages. The first and first step, we have hypermarkets with different positioning. We also have a group of hypermarkets that we can consider more low income and the other is more premium.

In stage one, we have to work on commercial concepts by each one of the clusters. Hypermarket, for instance, that's something that we have already started working on. And we expect to conclude by the end of the First Quarter 2015. And that's a step to measure the implementation of all these concepts.

And in stage two, as a sequence, we are going to have a rollout for the second half of the year. So this sequence has to do with clustering in the first half of our commercial concept and then a rollout expected to happen in mid 2015.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you, everyone.

A - Unidentified Speaker

Just adding to the comments, we will take keen attention to our pilot study. But we expect to see the first results of the remodeling project over 2015. It's too early to give you any deadlines because we're still building and working on the planning. But we will reap the results in the second half of 2015.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect. Thank you, again.

Operator

Tobias Stingelin from Credit Suisse has a question.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning, everyone. I have three questions actually. I want to know if you consistently measure the quality of the services you provide. Do you have surveys in the stores Pao de Acucar and other banners that consistently check the quality of service?

A - Unidentified Speaker

We have a bias because we talk to a small universe of people. But we've been listening to complaints like lack of products or many things about private labels. I don't know to what extent Brazilians are used to private brands. Sometimes they find Casanova [ph]. But it's not necessarily what they want.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So what do you -- do you consider measuring a consumer idea?

A - Unidentified Speaker

And to be very honest, I still don't understand because over 2013 you were focusing on competitiveness. And we can clearly see a double-digit growth. But gross margin going down, expenses going down and very solid results when it comes to EBITDA margin. And after one year it's still very different. It's a different reality.

Sales grew very little. Gross margin went up quite a lot. I don't know there are many aspects. But expenses are also going up maybe due to labor costs. And I don't know if we have to hire people again because we were too aggressive, over 2013 Catadel [ph] and personnel. So the discourse is clear -- focus on competitiveness. But were the numbers shown over 12 months in the second half of 2014? After that point, things have changed.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So why did it changed? Hypermarket, it was a business that was having tough times. So how come it were so much? What happened? Quarter-on-quarter, is there any driver? Is the competition so much better? Thank you.

A - Unidentified Speaker

Tobias thank you for your question, Ibiber [ph] speaking. We do measure the quality of our service. We have two systems, basically all the context. We have customers' homes and we also have data over the web and also special methods.

We follow it up. We follow lines, product quality, service. And we always try to improve the level of service. Lines, for instance, were a strong problem early last year.

As to stock-out, we had a problem early in the year. But it was lower compared to the previous year when you had a problem of strong temperatures. But we've been following it up carefully and stock-out control was broken down by store and banner. Unfortunately, sometimes shrinkage and stock-out can be problems. But this is also related to the market and demand for volume.

As to the private label issue, at Pao de Acucar we've been following up our private brand products. But our portfolio has multiple products. Like we said before, Casino, for instance, is a brand that has an amazing performance, highly acclaimed by our customers. We don't have a problem. And we also offer chocolate, other products. So we don't have it at Hyper. But it does happen in our measurements and in our actions.

And now I'll turn it over to Christophe to talk about competitiveness.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

I can talk about it. Just to underscore something that we always say, which for us is a condition to be in business, we don't change our competitiveness policy. We have our own resources to follow-up our performance vis-a-vis the competition. And we compare ourselves and we have third parties that do some survey and let us know about the results. So that's a basic requirement for the business.

We'll be strongly engaged and assure our competitive edge, which doesn't mean we always have the lower price. And that store or stores I remember neighboring stores, competitive stores for a full of products, for instance, that are basic products or staple foods, then we can offer the best price. So nothing has changed. We stick to our own direction. But when it comes to margin you've mentioned an increasing growth margin. That's a reality.

We have different mix, different growth rates, particularly in the last quarter. And we also have a growth plan for 2015. And it also moves in the same direction. This is important information as almost a mechanical process and it stems from the Company's mix from growth.

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

As to expenses, they are also slightly related to this. Last quarter, our sales growth was much higher compared to the last nine months. We mentioned this already. And by the way, it applies to all banners -- Asssai and also applies quite a lot to Minimercado and to Pao. This is where we had very good growth last quarter. And eventually, your expense volume is slightly higher.

And the last point to mention about competitiveness, our position -- the group's position is that if you don't follow your competitors and if you're not aware of competitiveness, chances are you will not survive in the long run. So for us, we follow our competitors in Rio, Sao Paulo, in the Northeast, Midwest. And several competitors. We have competitors for Via Varejo, Nova, foods; competitors at Assai. So we do track our competitors.

And in the long run, we -- by the way, we should never focus on one or two quarters alone. We are pretty much focused on our strategy for competitiveness in order to make sure our formats provide good level of service and quality. And we don't focus on one or two quarter alone like I said. We are pretty much convinced that our plan for the future will ensure the growth we have already achieved and also continue our growth in the future.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, Ronaldo. Just a follow-up question, if we were focusing on the Third Quarter, well, Extra was no concern for anyone even though historically hypermarket already is seen as the difficult business.

You mentioned you're being attacked by several fronts. It didn't seem to be an issue. But then overnight it apparently became an issue. So what has changed? Can you pinpoint anything?

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

It seems to me too big of a business and the trend change dramatically. I know it sounds weird. But what (inaudible) already in other banners were somehow hiding it. And then we never realized it. Then in the third or Fourth Quarter it started to come up.

What caught my attention is how fast this happened. And now it's a big issue.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, again. And I'm sorry for the follow-up question.

A - Unidentified Speaker

I think we are seeing things from different sides of the wall. That's not what I see, quite the opposite. What I can see is that Hyper and Pao, the best indicator we have is customer traffic. Hyper and Pao had some losses in terms of customer traffic until mid-year. And starting August, considering my numbers on a daily basis per store there is a trend to recover.

Whenever we have an action plan implemented, I have already reduced by two-thirds the loss we had from August up to now. January, for instance, has a good trend. And we are rolling out what happened in Sao Paulo and in Rio, there's our 24 hypermarkets. In the northeast, there are 19. And in Midwest 24.

I see a different picture compared to you and very confident in our actions. And I think we can have a balanced customer traffic with no losses. So I think we should talk more so we can have a better understanding in more detail of our operations.

Q - Tobias Stingelin {BIO 18290133 <GO>}

That's all I want. I really aspire to have this improvement. I'm just focusing on consolidated numbers. And that's why I would try to have a wild guess about different business. But it's perfectly, for improvement that's all we want. Thank you, again.

A - Unidentified Speaker

Tobias, you are focusing in one side and we are focusing on sales and customer traffic. But that's not all we should focus on. We have to check profitability, cash generation, EBITDA, investments, level of customer satisfaction.

One thing has to be clear -- we are analyzing several drivers at the Company.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Perfect. Thank you, again, thank you again for your explanation.

Operator

Richard Cathcart from HSBC has a question.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon. I would just like to go back to the question about gross margin. Could you break down the numbers about gross margin? How much from suppliers, mix, furniture? And second question coming back to the question about customer flow, could you give us some color about the loss in customer traffic last year? Thank you.

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

Thank you, Richard. Answering your question about margin, in addition to be a little bit complex, we don't have a breakdown by banner or by region. They can have malls. They're not breaking down malls. It's not something we would like to do. In terms of gross margin in Multivarejo, we move from 27.8 to 28.6 [ph].

And most take is quite significant, very significant. But not only that, Pao de Acucar is also very significant. I would like to emphasize that we had over 8% growth in Pao de Acucar like-for-like. Please bear in mind that Pao de Acucar has -- gross income is way above the average in Multivarejo. And there was an additive impact on gross income. And the contribution or the stake of the margin in terms of higher margin, this is quite remarkable, significant.

But as I answer to Andrea Teixeira, the performance of the margin is explained by the mix of banners, category mix within different banners. And I confirm without giving you the numbers that actually most contribution is significant. But it doesn't fully explain the increase in margins.

As to the drop in customer traffic, I'll turn it over to Lujan. And you talk about hypermarkets.

A - Unidentified Speaker

That's a very important topic for us so we can keep on running the business. And as you mentioned before, the drop in customer traffic over 2014 involves several steps.

We've been through a significant event, which was the World Cup. And in the last quarter, Q4, we had a significant recovery. And as Ronaldo mentioned, we are already with a strong positive recovery in the beginning of 2015.

The dropping customer traffic certainly has to do with a more competitive market and also the expansion we had in existing areas or the surrounding areas, important channels like proximity and wholesale. And as I also mentioned before, we had a historical base, a strong comparison base.

In Q4, our growth base year-on-year was over 9.8 in the food segment and 11.5 in non-foods. So repeating such a growth performance in terms of sales flow with such a high base is quite a challenge for us.

Q - Richard Cathcart {BIO 16457807 <GO>}

okay, thank you.

Operator

Alan Cardoso from Banco Safra has a question.

Q - Alan Cardoso {BIO 15933677 <GO>}

Good afternoon, everyone. I have three questions actually. My first question, there are several conversations about several initiatives by GPA to expedite sales in different formats, particularly Pao, Extra. And Hyper. I would like to understand the changes that are being made. When I compare price, assortment, customer experience in these three banners, the position you are now and what you want to see by the end of 2015, the level of sales would be within the expectations. Where should you really invest? Is it in customers, assortment, price, just to give us some color?

My second question is, is there any difference in terms of competitiveness by region when we focus on these three brands or banners? And lastly, can you be more specific about the level of same-store sales in GPA foods in the first two months of 2015?

A - Unidentified Speaker

Alan, let me answer your question. Price for us is a critical condition. It is a strategy and we want to remain competitive always.

Assortment is something we're working on. Lujan made comments about it. He is revisiting the whole assortment by store. It's not that I have the same assortment set for the whole country. I think that's something very -- a strong characteristic that we preserve at Pao de Acucar.

Let me give an example. If you go to a store in Rio and you look at seafood, it is completely different from a seafood department in Sao Paulo. If you look for coffee, for instance, there are specific brands that you only find at the Midwest. But not in other regions. So assortment is something we are constantly working on. Every banner is different.

At Pao, this is always present. We are constantly searching for innovation.

In Mini, it's different than ever our skills [ph] is much lower, then you need proximity products to the customers. And Hyper is an ongoing concern of having all the products the customer wants. So it's an ongoing process by banner and also within the banner even by region.

Q - Alan Cardoso {BIO 15933677 <GO>}

Perfect.

A - Unidentified Speaker

Same-store sales in 2015, we don't breakdown the figures. We have to wait until we close the quarter. What I can tell you is that we are evolving according to our actions.

Q - Alan Cardoso {BIO 15933677 <GO>}

Perfect. My last question was about competitive edge, if there is any difference by geography and even considering big competitors and lower competitor, smaller competitors, do you feel there is a different commercial aggressiveness level?

A - Unidentified Speaker

There is a difference. It all depends on the implementation of our plan. Whenever we are redesigning our commercial action plan, our group of stores and have special focus, we can perceive a difference like Lujan said. And I also mentioned this before, we don't see any difference in addition to our internal practice.

Q - Alan Cardoso {BIO 15933677 <GO>}

Great. Thank you.

A - Unidentified Speaker

We spent quite a long time talking about the importance of Hyper, almost 40% of GPA Foods. But there are only three levels here. Think about the First Quarter of 2014. There was a growth of 10.8%. In Third Quarter it grew 5.6% and into the Fourth Quarter 2.8%.

When I look at this format considering the total sales and error reduction growth seems to be too small, I don't understand why it happens. In terms of Pao de Acucar format, for instance, which apparently is doing great. And it's not clear what are the initiatives for improvement for Pao de Acucar.

Q - Alan Cardoso {BIO 15933677 <GO>}

Thank you.

A - Unidentified Speaker

Good morning. Thank you for your question. The first three quarters of the year were really stronger in terms of sales volume. And in the last quarter, we did have more difficulties; it was tougher. And in Q4 we also opened new stores and had some store conversions, particularly in Sao Paulo where we are stronger. There was some cannibalization in our sales even though this was expected.

Q - Unidentified Participant

So what have you've been doing?

A - Unidentified Speaker

Since last quarter, I cannot give you all detail. But we launched three or four initiatives to adjust our commercial plan, our sales policy, assortment adjustment. And to some extent, they will help us out. We have already perceived both in January and now in February that these actions and plans has a positive impact in our sales performance vis-a-vis the previous quarter.

And for the previous question about this format, it (technical difficulty) tracking. When you change the year that leads to a change in performance. They're probably related to supply, for instance, there are a more serious service problem or something that could be easily corrected.

Hyper has several structural problems. But Pao de Acucar is different. It is doing very well.

Q - Unidentified Participant

But as the year -- as we move into 2015, is there a clear response of why some changes happen? You mentioned a couple of things. But I must confess I still don't understand if these are the real drivers?

So okay, cannibalization is normal. One story is close to the other. I understand that that it's difficult to see the impact as a whole to understand the impact as a whole. So in your viewpoint, how can you tackle this? Is there an easy solution?

A - Unidentified Speaker

You're referring to the second half of the year?

Q - Unidentified Participant

I'm referring to the difference in sales growth between the first half of the year and previous years. And also what happened over the second half of the year?

A - Unidentified Speaker

Except for the World Cup, which was not so good for us, we did not have any serious strategic problem or any change to our processes.

Answering your question, we don't see that.

Q - Unidentified Participant

okay, thank you.

A - Unidentified Speaker

First, let me answer from a macro standpoint. Retail, I'm referring to food retail, it grew 2.2%, accounting to all newspapers published yesterday. We also grew 30.4% in food retail.

Pao de Acucar, the Pao de Acucar banner, which was part of Eliza's speech in the beginning, regardless of the growth rate by quarter it has market share gains quarter-on-quarter, including the Fourth Quarter. So what you're saying possibly and that's our viewpoint is much more related to macroeconomics rather than a specific effect in the banner because the data I'm sharing are evidence-based.

Q - Unidentified Participant

Okay. Thank you.

Operator

Vagines Salivayey [ph] has a question.

Q - Vagines Salivayey

Good afternoon, everyone. My question has to do with metrics and indicators that are used for variable compensation of the main officers in the group and also the management. What is the characteristic and the profile of such indicator in 2015 and if you expect to make any changes in 2015 considering priority, for instance, grow sales in one year and more profitability in another? Was there any change in this profile? Thank you.

A - Unidentified Speaker

That's a great question. The whole group that is here sitting at the table has part of compensation, which is fixed. And an important part which is variable and it varies according to the goals and targets. Then we have two parts, one is short-term which is annual and the other long-term, which is stock options.

So the whole team has metrics that stem from the Company's budget. And these goals are transformed into action plans that are followed up over the year. And by year-end, you have an assessment and you have global targets, targets by business unit. And you also have individual goals. So that's the model we have.

It's been taken place at the Company for a while now. And we pay keen attention to it. And every CEO of every business unit should work with their team and this is followed up as a whole by GPA as a group.

Q - Vagines Salivayey

Please testify if there will be any change in the profile from 2014 to 2015?

A - Unidentified Speaker

I would say we have more detailed plans over -- well, they were already detailed in 2014. They will be even more detailed on 2015. That's the process that improves year-on-year.

We have some levels of management that were included in the process. And year after year we are involving more and more people at the Company.

Q - Vagines Salivayey

Just to make it clear, if possible, are there any metrics that are far more relevant than others like return on invested capital or EBITDA margin or sales growth. Is there any differentiated factor in these metrics or is there a balance among several different indicators?

A - Unidentified Speaker

We implemented, negotiated and attribute weights according to the needs, according to customers and market needs. We focus quite a lot on demand. Take Nova, for instance, they really focus on growth and breakeven points. These are critical things for Nova.

Other formats are more focused on high customer traffic and profitability. So you attribute different weights year-on-year depending on the business unit strategy for the year.

Q - Vagines Salivayey

What about foods? Since you mentioned Cnova and malls, what about the food segments? What are the main goals for 2015 if I may ask?

A - Unidentified Speaker

For hypermarket, it is customer flow and also service. That's what hypermarkets is working on. Every store manager traces customer flow, average ticket. And service. Pao focuses on growth. Mini focuses on growth.

Mini has a great challenge for growth over 2015. If we will grow more than what we achieve in 2014. So the challenge is innovation, new products. And also remodeling in 2015. And another challenge at Hyper is also store remodeling -- I forgot to mention that. It will also happen in 2015.

When it comes to the corporation as a whole, that's a very efficient system. It has been working well for quite a while to the Company.

Q - Unidentified Participant

Thank you.

Operator

Our last question is from Marcelo Lima [ph] from Heatherhouse [ph].

Q - Marcelo Lima {BIO 17583217 <GO>}

Good morning. I have two questions. The first question is about CapEx. Christophe mentioned that CapEx was 3% of sales last year that it's been from a lot of growth and an increase in the number of stores. Do you have any expectation for maintenance CapEx? In the circumstance in which the Company doesn't grow that much, about maintenance CapEx, what is the percentage of the sales or absolute numbers?

And my second question is about stock buyback? Do you have any buyback program both as a controlling company level and also at Via Varejo? Thank you.

A - Unidentified Speaker

Thank you, Marcelo. The part about CapEx, there is focus on maintenance. It's relatively flat year-on-year and will remain flat in future plans. It accounts approximately 20% of total CapEx year-on-year. So the absolute number is, in 2014, BRL350 million invested in maintenance of our stores.

As to our stock buyback program, at a controlling company or Via Varejo, at this time of the year, we don't have anything in mind, which doesn't mean that if an opportunity comes up or if we have a time or the opportunity for our shareholders as a whole, this can be considered. But answering your question, today, we don't have such a program for any other companies.

Q - Marcelo Lima {BIO 17583217 <GO>}

Okay. Thank you.

Operator

This concludes the question-and-answer session. I would like to turn the floor back to the Company's management for the closing remarks.

A - Unidentified Speaker

Once again, I wish to thank you all for joining us for the call. Our team is convinced of the outcome of all our efforts in 2014. But that's part of the past. We have a big challenge for 2015. And this challenge can be represented by our planning, our budget. And our targets.

We have a clear vision of our plan for 2015. And the leaders of the team, the participants of this conference call have a clear mind and everybody is fully ready to perform the budget and this planning. And this makes us extremely confident despite the scenario that starts very complex in 2015.

Lastly, on behalf of all our team, I would like to thank the support we've been getting from Casino and from the board of director -- several boards of directors actually. We have this board, we have Via Varejo, Cnova's boards. They have supported us. Thank you. So much. Thank you for your efforts and support. So we can keep on working.

Lastly, I would like to highlight something critical, which is our commitment with governance and our conviction in the sense that governance is what, at the end day, ensures our long-term results. And it is critical for us to be compliant and focused on everything we've seen so far. But always prioritizing and having as a basic guidance the best governance at the Company.

Thank you. So much. Have a great day.

Operator

This concludes GPA earnings conference call. Investor Relations officer of the group is at your service for further questions. Thank you, all for joining us. Have a good day.