Y 2019 Earnings Call

Company Participants

- Jose Roberto Meister Mussnich, Chief Executive Officer
- Noel Prioux, Chief Executive Officer
- Sebastien Durchon, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Analyst
- Gustavo Oliveira
- Irma Sgarz
- Joseph Giordano
- Robert Erick Ford Aguilar
- Tobias Stingelin

Presentation

Operator

Good day, ladies and gentlemen. Welcome to Grupo Carrefour Brasil's Fourth Quarter and Full Year 2019 Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a Question-and-Answer Session when further instructions to participate will be provided. (Operator Instructions)

As a reminder this conference is being recorded and broadcast live via webcast on the Investor Relations website at www.grupocarrefourbrasil.com.br. A slide presentation is also available on this website. Slide selection will be controlled by you.

Before proceeding let me mention that forward-looking statements have been made under these Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments because of macroeconomic conditions, market risks and other factors.

It is now my pleasure to turn the call over to. Mr.Noel Prioux Chief Executive Officer to start the conference call. Please, Mr.Prioux, you may proceed.

Noel Prioux

Good morning, and thank you for joining us on this call to present Grupo Carrefour Brazil's fourth quarter and full year 2019 results. I am joined on this call by Sebastien Durchon, our

Chief Financial Officer who will present in greater detail the highlights of the period and the CEOs of our business units who will be with us for the Q&A session. Natalia Latava our Head of Investor Relations is also with us.

Once again, our results demonstrate the strength of our ecosystem and show that we made the right decisions and that we are producing results. We managed to grow profitably and make the necessary investments for our future. All divisions contributed to this performance and I am extremely pleased with the fantastic growth of Atacadao which returned to double digits with the opening of 20 stores in one of the best quarters of the year with significant growth in EBITDA.

Carrefour's Retails performance was spectacular delivering the best results since 2014. This reflects our belief that by listening to our customers we can turn all of our assets into hubs to generate traffic and sales. The consequence was a market share gain at an unprecedented speed and a 17% growth in EBITDA in multi-format.

This strong growth allowed us to accelerate investments in e-commerce, which I am convinced will be one of the main drivers of value creation in the future. We will be the best prepared player in the food world to ride this wave. And we have Banco Carrefour, which is a machine growing at breakneck speed and opening doors for new customers and clients to enter the ecosystem.

I believe in the online world plugged into the off-line world. Success depends on the connection between these two universes and on the ability to improve the experience of the customer who's often times navigating through different channels of our ecosystem.

The numbers are impressive. You see on Slide 2 that we opened 28 stores. Our food e-commerce more than quintupled its sales. We already have 13% penetration of our Private Label and our bank continues to improve service quality with NPS of the Carrefour card rising 15 points and 2.4 million new accounts in 2019, a spectacular achievement.

And to close with a flourish, partnerships and M&A are fundamental to accelerate our growth. We are very happy and pleased with the acquisition of 30 Makro stores, which take Atacadao to an even higher level. Accelerating its growth by one and a half years. The stores are extremely well located, with huge sales potential and we will bring all the know-how to deliver strong efficiency and scale generating a lot of value for the Group.

I would like to conclude by saying that 2019 was a fantastic year for Carrefour. It was a year in which we reaped many fruits from everything we planted. And all of this was achieved through transformation in the way of doing things with simplicity, agility, breaking down paradigms and valuing our nearly 90,000 talents. With that, I hand over to Sebastien who will detail our numbers better. Thank you all.

Sebastien Durchon {BIO 20242758 <GO>}

Thank you, Noel, and good morning, to everyone. On Slide 4, you, see how this strategy translates into our numbers both in Q4 and in the full year. As Noel said, 2019 was another year of profitable growth of the numbers also show an acceleration in Q4 that attached to the strong momentum that carries us in our ability to improve our results even while investing.

Before I get into the numbers, let me just point out that Q4 '18 numbers have been restated for the sake of comparability. If you recall in Q4 of '18, we recognized for the first time ICMS-ST tax credits and we recognized in Q4, the full year's credit to make Q4 '18 comparable, we kept it only credits referring to Q4 '18 and removed the credits from January to September equivalent to BRL 158 million.

Another point and this will be my last technical comment. All of the numbers are pre-IFRS 16. So let's start with our Q4 performance which featured double-digit growth both in sales and in profitability. Our gross sales rose 11.5% to BRL 17.6 billion with like-for-like growth of 7.6%. Adjusted EBITDA was up by 11.4% it to BRL 1.4 billion for a margin of BRL 8.7 million -- 8.7%. In adjusted net income Group share increased by 6.3% to BRL 695 million equivalent to a 4.3% margin.

If we look at the full-year performance growth was equally strong. Gross sales were up 10.4% to BRL 62.2 billion with 6.5% like-for-like growth and another 4.7% from expansion. Adjusted EBITDA was up 7.4% to BRL 4.5 million with adjusted EBITDA margin of 7.9% and adjusted net income Group share at BRL 1.97 billion almost BRL 2 billion was up 5.1% with a 3.5% margin. This is a very strong performance that has continued and consistent progress year-after-year as shown graphically on the bottom of the slide.

First of all as you can see, we have steadily accelerated the pace of like-for-like sales growth. From 3% in 2017 to 6.5% in 2019, which justifies the success of our commercial initiatives. Adjusted EBITDA margin has accelerated as well from 7.4% in 2017 to 7.9% in 2019. And as you can see, we added nearly BRL 1 billion in adjusted EBITDA over that three-year period or an increase of roughly 30%.

And even while investing and accelerating our expansion, our SG&A expenses as a percentage of sales improved over the period decreasing to 14.1% of sales in 2019. This is a very virtuous model as it shows that thanks to the very strong growth in sales at Atacadao in Carrefour's Retails multi-format business as well as an even stronger growth of the bank's top line, we were able to dilute costs and improve profitability. The screeens up resources to be invested in e-commerce, omni-channel initiatives and new financial services, which demonstrates the power of our ecosystem to generate additional revenue.

Let's now turn to our performance by business unit, starting with Atacadao on Slide 5. Q4 was a very strong a quarter for Atacadao demonstrating the strength of this model. We highlight that Atacadao recorded a very successful Black Friday campaign with sales up 63% over the previous year.

After keeping sales growth in Q3 Atacadao returned to double-digit sales growth in Q4 at 10.8% with an even stronger increase in profitability like-for-like growth was 5.5% and the expansion with the opening of 20 new stores in the year and 8 in the fourth quarter contributed another 6%. Gross profit was up by 10% to nearly BRL 1.7 billion and gross margin remained broadly stable down by 10 basis points despite a highly competitive environment. Adjusted EBITDA growth outpaced sales growth increasing by 12.6% with margin increasing 12 basis points to 7.6%.

The full-year results also showed a very solid performance, gross sales up 11.9% to BRL 42 billion. Gross profit increased 9.3% with the gross margin down a limited 36 basis points to 15.4% reflecting our decision to spend for the consumer and maintain price leadership.

And adjusted EBITDA was up 5.3% with a 7.2% margin. These are impressive results that reflects Atacadao consistent efforts to improve the efficiency of its business model as well as its scalability, which allows significant cost dilution in periods of high sales growth.

On Slide 6, we turn to Carrefour's Retails performance which was equally strong. As you see on the chart, on the bottom left-hand side of the slide. Carrefour's Retail consistently accelerated sales growth every quarter in 2019, sales were up by 12.8% in Q4 and its like-for-like growth of 12.7% was its best quarterly performance in the last five years.

In the full-year, sales were up by 7.5%. This demonstrates the success of these several commercial initiatives that have been implemented in the past couple of years, notably on offer assortment and pricing, which have also translated into better customer experience in a record high Net Promoter Score. Adjusted EBITDA was down 8.1% in the quarter and 2.3% in the full-year.

But that overall picture hides two very important trends, which it needs to be further explained. First of all, adjusted EBITDA in our multi-format business. In other words, our break and mortar stores was actually up by an impressive 17% in Q4 and 10% in the full-year.

This clearly demonstrates that our initiatives are bearing fruit and that sales growth acceleration, leads to improved profitability. Second, this allowed us to accelerate investments in e-commerce. In non-food we invested in a new distribution center to prepare for future growth and we ensured a successful Black Friday campaign in a very competitive environment.

In the e-commerce, we invested inside store openings to ensure high quality service and support growth. And these store openings were largely concentrated in Q4. Let's look more specifically at digital in e-commerce on Slide 7. Once again, our strong performance at -- our strong performance at -- our strong performance at Atacadao and Carrefour Retail has allowed us to invest in growing our e-commerce business.

And momentum was positive in Q4. The total GMV, up 40%. I want to highlight some of our 2019 achievements. Let's start with non-food in 2019. Our non-food e-commerce business has surpassed BRL 2 billion in sales and online now represents 34% of total non-food sales. Since the launch of our e-commerce only three years ago, we have increased our non-food sales volume by more than 50%.

We continue to grow our market place, which at the end of Q4 counted more than 3,750 sellers and approximately 4 million SKU. Our market place represents now 21% of non-food GMV. In food, we have seen spectacular growth with GMV up by almost 400% on the back of a strategic decision. As you know we have the ambition of being the leader in food e-commerce that's why we accelerated our investments in Q4, notably with the openings of side stores. And we are also steadily growing touchpoints with a steady rising drive, Click and Collect and last-mile delivery as mentioned by Noel.

Let's now turn to Banco Carrefour on Slide 8, please. Once again, we saw very strong growth both in the quarter and the full year. Total billings in Q4 rose 28.9% to BRL 9.7 billion driven by growth in both the Atacadao card, whose billings rose more than 50% in Q4 and now accounts for 28% of total billings. And in the Carrefour credit that also grew by 21.8%, even though it's a much more mature operation. We had a particularly good Black Friday at the bank as well, with transactions up 20% and average ticket up 25%.

In the full-year billings rose 28% and exceeded the mark-of BRL 33 billion. In other words, more than half the sales of merchandise at the stores. This reflects the many investments, we have carried out in our operations, especially in our product, channels and teams as well as the success of our commercial initiatives.

Notably, the acquisition of new clients. We saw a 264% increase in accounts sold through digital channel. Our recently launched insurance products saw their sales rise by 31.4%. The loan portfolio grew 38% in the full-year, totaling BRL 11.5 billion with solid credit quality.

We have a very efficient cost structure with an efficiency ratio up 34.8% better than the market average. Adjusted EBITDA also grew considerably reaching BRL 336 million in Q4, an increase of 22.8% over the same period of the previous year.

In the full year adjusted EBITDA surpassed the mark of BRL 1.1 billion and grew by 23%. Indeed, as Noel mentioned earlier, our bank is a machine with still a lot of potential. On Slide 9, I wrap up this financial section with a look at our balance sheet, which remains very healthy even as we invest in our expansion.

Our CapEx levels remain broadly stable in 2019 versus 2018, a little under aBRL 1.8 billion, which supported our expansion strategy notably the opening of 20 new Atacadao stores. We will pay total dividends of BRL 483 million in 2019, representing 25% of adjusted net income of this amount BRL 470 million have already been paid in the form of interest on equity.

As regards our debt, at year end, we had a net cash position of BRL 2.8 billion, excluding discounted receivables, or BRL 253 million, including them.

We are rated AAA by Standard & Poor's concerning the Makro deal, we have secured a financing of BRL 450 million from the Group at favorable conditions, which we can use, if we don't find better funding opportunities locally.

Let's focus on Slide 10 now, which addresses this deal, the acquisition of the 30 Makro stores and 14 gas stations in 17 Brazilian states marks a major step in our expansion. In Brazil, it is shown on the map on the slide the acquired stores offers strong geographic complementarity with Atacadao's existing network.

In particular. We'll gain a strong foothold in the state of Rio De Janeiro, where we acquired eight stores. And in the Northeast, with another seven stores. The remaining 15 stores are well distributed across the country. We acquired stores or the acquired stores represent 165,000 square meters of sales area, an increase of 14% and report gross sales of BRL 2.8 billion.

We plan to convert these stores to the Atacadao banner following the closing of the deal. At the same time, we intend to continue Atacadao organic expansion at a rapid pace. This will give clients access to Atacadao's offer and low prices and will also benefit our ecosystem as it creates new touchpoints to further rollout our financial services.

In a nutshell this acquisition represents one and a half years of expansion in one single move. Combined with Atacadao organic expansion of 20 stores for the year. This adds 50 stores to Atacadao's network, rising to 236 stores from a 186 at the end of 2019. Once the transaction closes or an increase of 27% in the number of stores.

We see significant potential to increase sales and profitability of these stores. And this deal is, therefore, a real growth accelerator for Grupo Carrefour Brasil as shown on slide 11. We estimate that post ramp-up, the 30 stores will increase their sales by at least 60% reaching BRL 26000 per square meter from BRL 16,000 currently, as they will benefit from Atacadao's offer an attractiveness.

Profitability will also increase as the stores optimize their SG&A expenses and benefit from economies of scale in merchandise procurement. We believe that the stores will gradually achieve Atacadao's EBITDA level or 6.5% of gross sales and 7.2% of net sales. Clearly, this is a value accretive transaction for Carrefour.

With that, let me hand over to Noel again for his concluding remarks.

Noel Prioux

Thank you, Sebastien. To conclude, I think you saw through today's presentation that the Carrefour Brasil ecosystem is at work with full speed and producing great results.

With that, I conclude today's presentation. Thank you very much for your attention and we can now move on to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions). First question from Joseph Giordano with JP Morgan. Mr.Giordano, go ahead.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning. Thank you for taking my questions. I actually have a couple of questions. The first, I'd like to understand more, this margin trend that we see in retail. Understand that e-commerce puts pressure on the company's margin, particularly in the fourth quarter. There's a seasonal aspect, Black Friday, particularly relevant in terms of creating this multi-channel platform for the company. So, I'd like to understand from you how could we break this down into e-commerce pressure in the core part, food retail? I'd like to understand the margin gain potential, given that the revenue was good. So, perhaps trade resources were a little higher in this quarter. And I'd like to understand the competitive landscape, because we saw a competitor with a margin that was quite pressured with strong promotions. So I mentioned that you probably have to follow in their footsteps.

My second question has to do with the bank, a very strong result surpassing our expectations. When we look at the recurring run rate, perhaps it would be important to analyze this net of the Black Friday effect, you mentioned 20% increase in transactions, 25% increase in the ticket. What could be a more normalized growth of the cross billing for the group.

And finally, in cash and carry Atacadao, the result was quite strong. I'd like to understand what timing do you expect it to capture synergies with Makro. You mentioned that all stores would be converted to Atacadao's banner in 12 months. So, I imagine that will impact the gross margin. When do you think the ramp-up will come to fruition, considering that these stores are very immature and looking at marginal organic expansion of Atacadao, which continues very strong? How should we expect the size of the stores to be looking forward? Thank you.

A - Unidentified Speaker

Well, thanks for all of your questions.

Regarding the retail segment margin. That includes e-commerce and brick-and-mortar stores. In Q4, technically, you're right, e-commerce had a downward pressure. We don't see things the way you did. I'll explain why. But technically, you're right. We have two trends of results for EBITDA margin that are very different. The physical retail, which improved a lot. Again 17% EBITDA increase in Q4 in brick-and-mortar stores that's not a little thing. Not every stores in the market have this trend. And on the other hand, we took advantage of this very good moment to invest more in e-commerce. So, I don't want to talk about pressure. You're right. In Q4, there is an impact, but for us, this is investing in e-commerce is investing in the future. So it's absolutely vital to do this now. Any -- first stop and think for this 2 minutes, all companies that launched or they rolled out an e-commerce platform, sustain the losses for many years. Our operation is very new and we are very pleased with the sales growth that we had in Q4, '18. And this was a choice we made.

In Q4, particularly, in non-food. This is a very challenging moment for everyone. In Black Friday, all players are fierce. It was not different in Carrefour's Q4, we made additional investment to be very competitive during the Black Friday campaign. And we also accelerated our investments in e-commerce. But again to us, this is a mid to long-term game. We'll always prefer to invest in new businesses and invest in the future than just let the margin grow in one quarter and hinder the future. So, that's the question about margin.

And Luis will speak about the -- and Noel will speak about the competitive market. No, Luis?

Regarding the competitive landscape, we started with the pricing policy that started last year. We have a specific pricing model store-by-store and we assess the sensitivity and elasticity price model considering our local competitors, case-by-case, and we have measuring parameters. We assess customer perception store-by-store and putting these two things together, this is what dictates our pricing policy. But we didn't have significant incremental investment in prices. Our food margins are rather flat. And our total margin if there is a slight dip around 40 to 50 basis points. It's because of a greater contribution of non-food categories, particularly electronics.

And then a question about the bank. As regards to the bank, your question was regarding gross billings. We have matured some sales channels, particularly digital, which posted robust growth in 2019. And we should have very strong growth. We're using Atacadao card and Carrefour Card via digital channel. This channel was not very developed; that's gaining traction now. And we take advantage of Atacadao's organic growth and there's a lot to enjoy with these 30 Makro stores to put our card sales machine at the point of sale. So when I look at gross billings, I don't see anything playing to a deceleration. Even when we talk about Black Friday and Christmas, this is the seasonality of Q4. If you look at 2019 -- all along 2019, you'll see that investment remained practically flat in the first three quarters of 2019. So I'm not concerned regarding gross billings increase at the bank.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Good morning, Joseph. This is Roberto. Thank you very much for your question.

Considering that these Makro acquisitions, our acquisition of points of sale for us. After approval by CADE, the antitrust agency, our plan is to transition the stores,we'll close the stores, we'll re-equip the stores. And in 3 to 6 months, they'll start operating. They'll reopen under the Atacadao banner. And from-then on, we'll have the natural ramp-up trend as any new store to be plugged in our growth plan. So this is normal for us, we are ready. We are prepared. This will have no impact on Atacadao's performance.

In addition to the bank being a machine, I consider Atacadao also a machine. And if we think that in the past, we even opened 50% of the stores of existing stores when we had 34 stores, and there was no impact. So I don't expect any impact. On the contrary, this will accelerate the ramp-up, given the quality of the locations of these points of sale across Brazil. Regarding store size you asked about future expansion. So we are always trying to optimize sales per square meter. So, we are paying attention. We are working on this. We already have some very interesting initiatives, and we're working on this. Thank you for the question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Perfect. Thank you, very much. Have a good day.

Operator

Next question from Robert Ford with Bank of America. Mr.Ford, go ahead.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

Good morning, everyone. Congratulations on the results. Did you feel any impact on the price of -- because of the price of protein,how did this contribute to increased sales in the quarter? And what are the sales and margin trends now? And what are you thinking about food inflation? And another question on convenience. You seem to be accelerating growth in this area. What's different in convenience stores? How do you plan to expand this business looking forward?

A - Unidentified Speaker

Thank you for the question, Robert. Regarding animal protein, we had a strong inflation of prices this year. In a consequence reduction in sales volume of animal protein, and we saw a change in the protein that customers were buying. The situation has kind of stabilized now, but we still have a strong price difference compared to the previous year. Within the last quarter, we had a volume increase in the total food category. We had a significant growth not only like-for-like sales, but also in volume. And inferred traffic of customers.

Regarding the proximity or convenience format, Carrefour Express, 2019 was a very important year with a significant turnaround with an average growth of Express stores greater than 20%. This growth started in February of 2019. And the growth continued strongly. We believe that this is a clear trend for our customers. This is leveraged by the full ecosystem, the last mile delivery service, our partnership with Rappi and we're evolving to other models that will allow us to develop, new concepts of stores including autonomous stores, or other models of partnerships to accelerate our proximity convenience model, which is already profitable.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

Thank you very much. And again, congratulations on these results.

Operator

Next question from Gustavo Oliveira with UBS. Mr.Oliveira, go ahead.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone. I'd like to understand more regarding Atacadao. The recovery that you had in sales in Q4 in same-store sales compared to Q3. And how are you thinking about this in the future. Do you still feel the need to invest a little more in pricing for this format? Or do you believe that you can maintain the gross margin in 2020 to continue to have this very good thing for same-store sales performance?

My second question, still about Atacadao in the Makro acquisition, what is the estimated CapEx to convert the stores?

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Thank you, Gustavo, for the questions. Actually, the Q4 market was more assertive for us commercially. I believe that if you look at Atacadao's track record, we have stability of margins. And this is a top line business. So I guess, we did some good work regarding this. We don't talk about investment in margin. We talk about monitoring the market in terms of procurement, sales, and results, including absolute values given the elasticity in demand. So the model hasn't changed. Management hasn't changed. And we expect to continue to deliver the same results we've had delivered.

Regarding CapEx to convert Makro stores, it is much lower than the CapEx for opening a regular store. Some of the stores we acquired were already renovated. So, they will need a very low CapEx for the conversion because Makro had already renovated some of these stores. And if I was to look like our stores, this was an initiative that they have taken. So I don't believe we're going to be investing too much CapEx. And it's not going to be too long to convert the stores. Now obviously, we want to convert to the stores close to state-of-the-art. So that will have a faster payback and a faster ramp-up.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you, Roberto, but in the stores that have been already invested by Makro, is it fair to assume that sales gain, when you operate under the Atacadao will be lower than the average of 60%? Or is there still a lot to do, even in those stores that have been invested in.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

These are two completely different things. Makro operates in one way. We operate in a totally different way. So, I guess, the strength of Atacadao's banner takes our customers B2B and B2C, I'd like to recognize the model and value proposition that we offer. In advisory, we said that we would spend about BRL10 million to BRL12 million worth of CapEx. On average, this should be a BRL12 million per store on average?

About BRL10 million per store on average.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Thank you very much. I think that there was a second part to your question, Gustavo, regarding expected sales per square meter?

The number we mentioned in the presentation is a little below the current average of Atacadao. So we've been a little cautious on our side. We don't like to communicate things and not deliver to the promise. So the number we presented we're comfortable with; we can always do a little more, but we'll see. We'll see how things go. The important thing here is that we all have to remember that Makro was a pioneer in the cash-and-carry segment. So we respect them a lot. They've been opening stores for a long time, in the 1970s and the 1980s. They were the first players in some locations. They have some exceptional locations, and we are going to tap into that. We prefer to surprise you positively than disappoint you.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you very much.

Operator

Next question from Tobias Stingelin, Citibank. Go ahead, sir.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you for taking my questions. Congratulations on the results. Actually, I'd like to go back to one point. That was somewhat addressed already regarding the competitive dynamic for the retail area brick-and-mortar stores. Thank you for the disclosure. I think it's the first time you disclosed the difference of margins in the different business units, and that helps. And within the release excluding e-commerce, gross margin would have dropped to 70 basis points because of the electronics mix. In a previous answer, you said that you don't think you need to be more price competitive, given that you have already repositioned your prices a year ago. But having said that, and looking at the competitor, they reported the results yesterday. They seem to be at a different moment and they'll have to adjust to that. Don't you think that this can lead to a process when you need eventually to be even more competitive than you are being now?

A - Unidentified Speaker

Thank you for the question, Tobias. Like I said before, our pricing models -- it's not the difference from competitors that makes a difference. It's perception of customers, so we have to look at permanent prices. And this has to do with some promotional prices to some leading categories and it has to do with our private label products. We announced one of these ventures that contribute to put together our pricing. Again, we had a pricing repositioning it almost a year ago. And when you reposition prices, customers take a while to notice that your prices are at a different level. And we are now reaping the benefits of this repositioning that was done some time ago. And this is why I said that how our margin differential is only 50 basis points and on the back of a strong improvement of electronics sales.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, perfect. But looking forward, not in the beginning of the year, perhaps the end of last year, are you feeling movements that will suggest that you would have to change your pricing? Again, I know this is very tactical, there are many variables.

A - Unidentified Speaker

Well, let me try to answer this in a simple way. With what we have now, we're growing 10% like-for-like sales. So we think that we offer the right positioning. Any way you look at this, this pricing, which is an important variable, you're right, but we cannot forget all of these sensational work was done by our team in the last two years in terms of assortment, private label. So it's a set of things that led to this 10% increase, this 10% growth.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Perfect. And I don't know; could you tell us about how the year started? What have you seen in the beginning of the year in terms of sales performance? And again, thank you.

A - Unidentified Speaker

Well the trend, we're seeing is a similar trend. To us, it's a similar trend to what we saw in Q4 of last year, of course, net of the Black Friday impact, because that impacted non-food sales last year.

And another comment I'd like to make. Since you touched on gross margin to us gross margin in and of itself is not such an important variable. What happened in the retail in Q4 of '19 in the brick-and-mortar stores? There was a slight dip, you're right, on gross margin, but there was a strong EBITDA increase, 17% up. So with the sales trend that we see, it is very easy to dilute costs. And this is what we want, and this is what happened in Atacadao. It happens in the bank and it is happening in multi-format retail.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Perfect. Thank you very much.

Operator

Next question by Irma with Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. I have two questions related to digital. I know that perhaps it is a little difficult to design a curve, but how do you think regarding investments that are needed in the digital segment, particularly in multi retail and perhaps the bank. But when you think about the next project, where do you think we are in terms of the investment curve for e-commerce and digitalization of food retail? That's my first question.

My second question. At Atacadao, at the moment, digitalization is not the main theme here, but in the future do you think that this will be an opportunity? Or do you think that in this model given the margins and the supply model, this wouldn't make sense?

A - Unidentified Speaker

Thank you, Irma. Let me start with the question on food e-commerce.

We are at the very beginning of this journey. It is worthwhile remembering that here in Brazil, we are talking about a very low penetration of food e-commerce. So at Carrefour, we are in an investment stage. We made the decision to open site stores, which in our view, is by far the best option in terms of logistics to serve our customers and to multiply our service points. So there's no magic here. You have to open the stores; it takes a little CapEx, not much, and you have to have employees there. So -- and they want to have 100% of the costs, and you have 25% of sales, give or take. So you know, in our view, it takes a while. It will be gradual, but sales will increase. There will be a ramp up. It is very hard to say at this point how long it will take. I tend to think that in one or two years for sure we will have a payback.

And second question, Atacadao; Irma, thank you for the question. Of course, if we consider that B2B is to be close to customers, digitalization will help us. It will serve as another communication with customers. So yes, we're studying, looking into this, we're trying to understand how this will come about. And I believe that yes, there will be good opportunities in the future considering how we approach and reach out to our B2B customers. And Irma, in your question you quickly mentioned digitalization of the relationship of customers of the bank. They are two fronts. The sale of new accounts and Atacadao card for credit sales of fire digital channels. And this is an up and running business. It's working very well with slightly better economics than other channels because this is a more organic move by customers. In other words, level of activation is better and performance is very similar to other channels and client engagement with the product is high.

The second front, we've touched on that, is related to implementing our digital account. And very soon, we should start piloting our digital stores in five Atacadao stores and five Carrefour stores after carnival. This is an incipient project. It will move our trust 5 million to 7 million clients that we denied last year. The ventures was (inaudible). And then we were not able to sell a credit card to, and we'll start there. So that we can establish a new relationship platform with these customers.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay. Thank you.

Operator

Next question by Gillioni Aziz, Safra.

Q - Analyst

Thank you. I have two questions. I'd like to touch on the topic of margin, again, particularly in the e-commerce segment for the food category. I think that the company's strategy is very clear to capture the benefits that the company is having in brick-and-mortar stores in the traditional segment to grow and gain competition in the future. So, I'd like to understand -- well, I see campaigns I get Carrefour emails offering significant discounts, 30% discount for a BRL200 ticket. So how do you see this evolving in the future, these campaigns and all? Could you perhaps tell us how you're measuring these results? What you're capturing with this kind of campaign? I know I'm getting critical data here. It's just email that I got. But are you using this kind of strategy to invest in this channel because you're investing in e-commerce? And how do you see the return on this investment in terms of growing the top line because I think this is the ultimate goal and how do you see this evolving in the future? That's one question.

And the second question has to do with the channel strategy. How do you see the hyper segment. I know that you've converted some hypermarkets into Atacadao stores. Do you see an opportunity to convert more stores in the future? These are my two questions. Thank you.

A - Unidentified Speaker

Thank you, Gillioni. Well, first point, I'm very pleased that you received the 30% discount coupon. Please feel free to use it. I'm still getting food e-commerce margin, we are in the beginning of this journey. We have a penetration in Brazil of 0.5% or 0.6% food e-commerce penetration. So it's a very low penetration. So, we are in a moment when we have to convince customers and to convince customers to use e-commerce. Well, we have to encourage them, motivate them. So we are testing a number of things. The coupon -- discount coupon that you received is one of the attempts that we're trying and it's an attempt. And we'll figure out what is the best way to encourage customers, but we have to attract customers and we'll make many trials. Regarding hypermarket conversions, I'll turn the floor to Luis.

Thank you. We're good in Hypermarkets. We're good in Hypermarkets. I would like to you a little bit of Q4 data. When we talk about like-for-like of physical sales of 9.6%. We have like-for-like sales of 9.2%. We have a volume increase of 3.9% and a customer growth of 3.7%. So what I mean by that is that we believe that in Hypermarkets are still attracting customers. It is a format that can still bring results. It's already generating a lot of results for us. In addition in the Carrefour eco system, it is a fundamental piece to drive the Carrefour bank. It's a relevant part of the profitability of the bank and it's in -- is the hypermarket. So it's part of the ecosystem and we can build on that. Of course, our competitors are no longer betting on this format, but we believe that by maintaining the right level of service, the right assortment, the right price, and integration with our omnichannel strategy, I think that we have many customers being well served in our hypermarkets. And a comment on our part, I'd like to remind you that we've converted 15 hypermarkets. The last one happened last year in Boa Viagem in the city, and this was very successful, but it takes good planning. So, we're always looking into this. In conversions. We have to know exactly what Luis mentioned. I have to analyze the ecosystem, it's not just one store. It's the store, the card, the bank, the gas station, the drug store, it is a whole business model that Carrefour hypermarkets have. And we've had the right performance given the superior performance we've witnessed lately. Betting on cash flow, it has its evolution, but we're opening these 20 new cash-and-carry stores.

We're having fun. We have 30 more stores and looking at our brothers growing as they are, we feel a little envious.

Q - Analyst

And Roberto already touched on this. Let me hit regarding the extension plan, I think it's very clear. It was very clear in the presentation that you're maintaining the plan of opening 20 new Atacadao stores for this year. And you were adding the 30 Makro stores that will be converted as soon as you have had the approval.

Okay. Do you think that they need to convert the stores, the Makro stores, do you think that this can impact your organic expansion plan?

A - Unidentified Speaker

The answer is very clear, no. It's very clear in the group. Our CapEx dynamics in the strict the expansion strategy. And this didn't change. The Makro stores were an opportunity that will bring us an impressive value. We have 52 stores to open this year as soon as we have CADE approval. And in terms of business infrastructure, this will not change our P&L, balance sheet. And in terms of resources, this was a pleasing surprise, because I was negotiating I was optimistic about this. I asked my people to submit our plan to convert those stores, considering the talents that we have. There we developed in our trainee program and with the development of Atacadao people and to my surprise, we have the 52 managers already appointed for the expansion.

We have the talents in house. We have the resources. So we are ready to start operating these stores. To me, this was very, very important because in the last 15 years, and this has been a challenge to maintain the culture, to deliver positive expansion results; and now, we have this opportunity. And we are prepared.

Q - Analyst

Okay. Thank you. That's very clear.

Operator

Next question Thiago Macruz with Itau BBA. Mr.Macruz, go ahead.

Q - Analyst

This is actually Emerson and I have two questions regarding Atacadao. Gross margin dynamic was surprising increasing and I'd like to understand what are the commercial initiatives you're implementing? I'd like to have more color on that. You're continuing to expand, you were consolidating the market. So I'd like to understand relationship with your suppliers, if this is helping you remain competitive in the Atacadao? That's my first question. And my second question, you mentioned that store openings in this quarter were in line with the recent activities but in a somewhat smaller format and this seems with more scalability. So, how do you understand the marginal ROI fee of these stores compared to mature stores? These are my two questions. Thank you.

A - Unidentified Speaker

Thank you, Emerson. It's the right product at the right time when customers want it. This is the secret, my friend. We are industry partners. Given our capillarity, we are present in 100% of the states. We have a partnership with the industry. And the industry understands our model quite well. So, negotiations continue as always, with the addition to the market because the market is not the same. The market today is different from yesterday, given competitiveness, given actions of other players that we have no control over, given the competition that we're always monitoring. So, we have to be smart and we have to do negotiations day-by-day. We have a track record of results that are almost at the same level, and we pursue that.

Regarding the opening of somewhat smaller stores. I would say that this is more for optimization purposes, maintaining the same model. Now what do I mean by that? It means less CapEx with a smaller model when we can optimize our offers by following the same economic model. We cannot to change the distribution model or the model and that is key to us. So in the expansion pipeline, what we expect is the same ramp up, the same historical ramp up that we've had for the other stores. I hope I have answered your question.

Q - Analyst

Yes, you did. Super clear. Thank you.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. So, I will turn the floor back to Mr.Prioux for his concluding remarks. Mr.Prioux, go ahead.

A - Noel Prioux

Well, if there are no more questions, I will end today's call. I hope that the presentation and the question-and-answer session gave you a greater insight into how Grupo Carrefour Brasil's omnichannel ecosystem strategy is bearing fruit to ensure continued sustainable and profitable growth ahead.

Thank you very much for your attention. Have a great day and for the Brazilians, enjoy carnival.

Operator

This concludes Carrefour Brasil's conference call for today. Thank you very much for your participation and have a good day.