Q3 2020 Earnings Call

Company Participants

- Eugenio De Zagottis, Corporate Planning and Investor Relations Vice President

Other Participants

- Guilherme Assis
- John Nelson Ferreira
- Joseph Giordano

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to RD People, Health and Well-being conference call to discuss third quarter '20 results. The audio for this conference is being broadcast simultaneously through the internet in the website ir.rd.com.br. In that address you can also find the slideshow presentation available for download. We informed that all participants will only be able to listen to the conference during the company's presentation. After the company's remarks are over there will be a question-and-answer period. (Operator Instructions).

Before proceeding, let me 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 exception of RD management and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks and uncertainties and assumptions because they relate to future events and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of RD and could cause results to differ materially from those expressed in such forward-looking statements.

Today with us are Mr.Eugenio De Zagottis, Investor Relations and Corporate Planning Vice President and Fernando Spinelli, Investor Relations and Business Development Director.

Now I'll turn the conference over to Mr.Eugenio. Sir you may begin your conference.

Eugenio De Zagottis {BIO 7193695 <GO>}

Hello everybody. Welcome to Raia Drogasil third quarter conference call. I'd like to start by mentioning that this is a recovery quarter. We are coming from a tough second quarter that was very impacted by the pandemic, but this quarter, I think marks a steady improvement in the movement towards normalization, which we expect to see in the coming quarters. So we were able to post positive mature same-store sales during the quarter despite the fact that the shopping mall stores are still heavily affected by the pandemic, but without these shopping mall stores, we're talking something like 5% mature-store sales growth, which is very significant and shows the momentum that the company has. This was also a quarter in which we were able to maintain overall the margins that we had at the same point next year, and we had several advancements towards our strategy. So I'll start with the highlights.

We ended the period 2,223 stores. We opened 64 stores and closed 3 other stores during the quarter. Our market share totaled 13.2%, with 25% in Sao Paulo. There is still the fact that A area regions are impacted significantly by the shopping mall stores. So when we look at our market share neighborhood-by-neighborhood, everything is normal, but when we look at the ways of these A regions within the overall market, they are penalized during the pandemics. So our share is lower than structurally it would have been. We did BRL5.4 billion in revenues in the quarter. Revenue increased nearly 13% with plus 1.4% in mature-stores. Our gross margin totaled 27.8%, 10 bps basis increase over same quarter last year. Our EBITDA totaled BRL397 million a 7.4% margin and 10.5% of growth despite the pandemic and an income of a BRL173 million, 13% net income growth. And finally, we recorded positive free cash flow and total cash flow in excess of BRL 300 million in the quarter due to the reduction in the peak cash cycle that we had recorded.

Operator

Ladies and gentlemen, stay connected. We will back in some minutes.

Eugenio De Zagottis {BIO 7193695 <GO>}

Hello, sorry. For some reason, I think my audio was muted. So I'm on Page 4 talking about the expansion. So we ended the quarter with 64 openings a total of 158 openings in the year and we have closed 3 stores during the quarter. We in our Investor Day, we not only restated the guidance of 240 stores for this year, not only, but we also set the same guidance for the next two years. So both in 2020, 2021 and 2022 will be opening 240 new stores. If we look today, 33% of our stock portfolio is still undergoing maturation.

On Page 5, I would like to highlight the demographic profile of our expansion. So we opened in the quarter, a total of 86% of the -- sorry, 86% of the last 12-month store openings in the third quarter were either hybrid stores or popular stores. Both of these stores touch the Brazilian emerging middle class. If we look to the our overall store portfolio, we have 65% of stores which touch the Brazilian emerging middle class, 22% are popular stores only for these customers, 42% are hybrid stores that combine different customer segments. So if you look today we have 1,440 stores that hybrid or popular 535 of these were opened in the last three years.

On Page 6, here we have the geographic positioning of the company today. So we ended the period with 2,223 stores. More than 1,000 of those are in Sao Paolo, but I think it's also significant if you look in the Northeast area, we already have nearly 300 stores in the northeastern state. This is an expansion that is relatively recent. We entered Bahia seven years ago, but all the rest over the last five years, and we already became leaders in several of these markets including the cities of Salvador, the city of, the city of Aracaju. So these are important state capitals in which we came at a late stage in the game five years ago and we became the leaders which shows, I think, the strength and of our execution and of our store location profile, et cetera, versus the local incumbers. Another highlight is the southern region, where we already have 232 stores and we just opened a new DC in Rio Grande do Sul in the metropolitan region of Porto Alegre and Rio Grande do Sul will be instrumental to allow us to accelerate our expansion into the state.

If you look at Paran, where we have 125 stores. Paran is a slightly smaller market than the state of Rio Grande do Sul, yet, we have more than twice the number of stores. This shows that the space that we have to add new stores in Rio Grande do Sul. We showed during the Investor Day an analysis showing that the sales for mature-store we have in Sao Paulo are now the lowest for the whole chain. This is not about Sao Paulo being bad. On the opposite, Sao Paulo is an amazing market for us, but we have built out of Sao Paulo in places where our competition is more vulnerable than the one we face in Sao Paulo. And our density is lower than the vantage we have in Sao Paulo. In every other state, we built operations that sell more than we are currently sell in Sao Paulo. So this shows the strength of our national operation. We are now in 23 states in Brazil and we are entering the 24th state which is on -- in the Northern region.

When we look at our market share, our share is roughly stable versus last year, but with losses in some markets and this is very related to the pandemic. Just to highlight here in the Midwest region, there is a reported distortion taking place here. What happens is that there are a lot of wholesalers based in the state of Gois, and the whole loss of share. So here we see that we lost 200 bps of share in the Midwest region. When we look we lost 600 bps in the state of Gois. But this is 100 bps is an artificial loss because a lot of wholesalers were basing and we have tax advantage a year, ship from Gois to the other state. If we look only at the sellout share in the state of Goi, only looking at the chains, taking out the wholesale informant, our share is absolutely normal in the state. So this is a reporting distortion. But overall, the pandemic has limited our share growth. We can look here in this table in the bottom right, that the performance of stores in the popular and hybrid segments is now way above the performance of the premium stores. And the region and the reason for this is shopping mall stores. So shopping mall stores they are very concentrated in the A region. So because of the impact on shopping malls, we are losing we lost mature store sales in these regions, but we're growing really well in other regions. The popular stores are growing 9% mature store sales right now. So very strong. But my point here is, if we look at the market share in Brazil neighborhood by neighborhood our market share is fine and it's growing normally. But the weight of the A regions is now where we have higher share, is now smaller because shopping malls, than the normal. So there's a temporary effect in our market share, but as soon as demand normalizes, so the share growth, nothing structural to be afraid here.

On Page 7, talking about our top-line growth we reached BRL5.4 billion in revenues in the quarter, a 12.8% consolidated top-line growth. The highlights have been OTC and hygiene personal care. OTC was 17% growth HPC was 15% growth. When we look at prescription both branded and generice, here, this categs are more penalized by the fact that with the pandemic the number of prescriptions written by physicians has come down, because people have postponed consultations, people have postponed surgeries, for example. So this is also related to the pandemic, while the front store has shown more resiliency at a time like this.

On Page 8, here, it's interesting to compare what's the growth either total or mature store sales with and without shopping malls. So if you look, our total revenue growth was 12.8% in the quarter. If we take out -- if you look only at the stores which are the freestanding stores without the shopping mall stores, where these will have been 16.8%, so a robust growth. When we look at the mature-store sales, the total was 1.4%, already positive, not far from inflation, which is around 3%. But if we take -- if you look only at the freestanding stores, which operated normally during the quarter, we're talking 5.3% mature store growth. And this represents the structural momentum of the company. If shopping malls were normal the whole company would be comping this high. And this comp is so high that in the even with the shopping mall drag still the total consolidated number is a positive mature-store sales growth.

Page 9, highlighting here the digital execution. So our digital sales represented 7.1% of total sales in the quarter. This is a very significant number. In the second quarter the number was slightly higher than this, it was 7.6%, but this was a time in which a lot of people were still locked at home. And in social isolation. And obviously, people are using digital channels overall way more. And pedestrian traffic at the store was an all-time low during the second quarter. It's interesting to see that despite the fact that the pedestrian traffic improved remarkably in the same quarter, we still maintain digital sales above 7%. So it's what it's obvious that the habit of the consumer is changing on a permanent basis. It's obvious that our execution is driving more and more consumers towards digital. And in the end, we talk about a lot about the digital channel, but what matters the most is not the channel, it's the digital customers. Because these days the people who buy the digital channels are also buying in the stores in several times. We're talking about double-digit -- digital contribution from digital clients. And this is important because we believe that then we have evidence about this that once a customer goes digital the spend increases, the share of wallet increases, the frequency of buying increases. So the whole hypothesis here is that digital sales will be higher 7, 10, 20. Digital customers will be even higher 15, 20, maybe third in the future. And there will be an additional gain in spending, which will translate to sustainable comp growth ahead of inflation in the mature stores, which will also translate in gains of operating leverage.

One of the aspects that is most important about the digital execution is the convenience that we offer to the customer. If you compare our digital execution with any major marketplace or pure play platform, I think there is a very big moat for these platforms to be competitive in our segment. The first element of the moat is specialization. This is a very heavily specialized segment. Okay, selling an OTC product is not difficult, but if you want to serve a prescription customer, I mean, you need to process digital prescriptions, you need to have affiliation with manufacturer sponsored -- programs like we have a partnership with health insurers and corporations. You have to be part of the Farmcia popular program. So these are all things that unspecialized platforms cannot do, and we do but the second element is the convenience that we can add, and which is a direct consequence of the footprint that we have.

We have 89% of the Brazilian A class population within a mile of our stores. This is an unmatched network in terms of convenience. 74% of our digital demand is fulfilled by the stores. And out of this 74%, 96% is fulfilled in the same day of which 85% is fulfilled in four hours. The difference 11 is fulfilled in more than four hours. And the other aspect here is that we are now trending a lot our one-hour delivery infrastructure. So what's today is for our delivery for the bulk of our digital demand in the future will be one hour. If you look at in this segment, given the capillarity of stores, given this kind of service, our consumers are not looking to buy in one day two, day four days. Looking to buying one hour, two hour, four hours and only a player with this kind of capillarity and this kind of integration between platform and stores can achieve this and the evidence is there. And finally, we have driven digitalization by the customers, and we have today BRL5.6 million cumulative downloads. And this number is growing at a very fast pace. So the digital adoption is not only about omni-channel, it's not only about delivering and the customer's hole, it has also to do with execution in store.

So I will give you a couple of examples. We have introduced Smart Coupons in the app. So consumers know that the best discounts in the stores they can only be found digitally. So people are using the app inside the store to access these promotions. We just launched Stix, which is our points coalition program in partnership with group GPA, Pao de Acar, Extra and also, Ita, which is a leading bank in Brazil. So it's a common points program. You can earn points in or the Brazil spend in. Extra, Pao de Acar or you can in -- earn the points from Ita. We transfer them to our stores and expand at our stores. This is a very interesting program, but it is also not only a driver of loyalty, but also a driver of digital adoption because customers to exchange the points to take a look at their balance, to be able to transfer points to your wife, to your husband, you can only do it through the digital. So the digital journey in store is now heavily dependent upon the app. And this is driving app adoption at downloads and this is driving more and more digital sales from us.

On page 10, entering our financials here. So we had a gross margin of 27.8% in the quarter, 10 bps more than the same quarter last year. This performance was helped by the inflationary gain on inventories because the price increase was shifted to the end of May. So the benefits was split between June and July, mostly. So there's a gain here. But then there is also pressure from the net present value adjustment. The net present value adjustment is just an accounting adjustment doesn't have any cash repercussions. But because interest rates are low, we lost 30 bps due to the net present value adjustment.

Finally, there is also more discounts being given to digitalize the customer. Things like the Smart Coupons and those discounts are higher than in the past. And the penetration of those discounts in the overall basket is higher than in the pst. And finally, we see a major improvement in the cash cycle. We're coming down from the peak of 80 days in the second quarter. We already had 65 days and we'll probably end the year at our historical levels. So we are already normalizing our inventory levels or accounts payable. And the improvement here is already very clear, but by the end of the year, the cash cycle would be fully normal as we have been telling in the guidance.

Page 11, our total expenses totaled 20.4%, 20 bps more than last year. Despite the fact that the mature-stores grew slightly below inflation. We were able to maintain linear sales expenses. We were able to save on rental negotiations especially in the shopping malls.

We have people who are in the risk group, who are on a leave and there's a government program helping us finance the leaves. So overall, we have been we have linear sales expenses here. But we've seen a what's in the pressure total -- in the G&A, which is related to the structural increase we're doing, not only (inaudible) digital, but also to support our new strategy, which we also count as a marketplace and with a health care platform.

Page 12, our adjusted EBITDA was similar to last year, 7.4%, (10bps)lower. Total EBITDA of BRL 397 million. And if you look only at retail, the margin was 7.7%. 4Bio has a lower margin, so the combined margin is 7.4%. We booked in the quarter a non-recurring gain of BRL2.8 million. And on Page 14, we booked -- we maintained a flat net margin, 3.2%; BRL73 million of net income, 13.4% growth versus last year.

On Page the next Page, we look at the free and total cash flow generation in excess of BRL300 million. And this has a lot to do with the working capital reduction as we normalize the cash cycle. And this will repeat again until the fourth quarter in the cash cycle is fully back to its normal levels. With this improvement our net debt-to-EBITDA is now below 1x. It's at 0.9, and it will get back to historical levels, as I mentioned. Well, our share has performed really well this year. We're talking 4.9% increase versus a significant loss from. So we generated a lot of alpha here. And I'd also like to highlight that we did a share split in the quarter. So we divided by the share price by five and multiplied the number of shares by five also. And the idea here is to focus more and more on individual investors in Brazil. When we look at the Brazilian Market, the main buyers in the stock market have been individuals, especially with low interest rates, people are going out of fixed income and into equities. So the nominal share price has to do with the minimal spend that they have to have in order to buy our shares. So this split is driven by these enhanced focus on individuals.

Here on Page 17, I would like to focus on our newly unveiled strategy, which we presented this month in our Investor Day. So everything starts with our purpose, which is taking close care of people's health and well-being during all times of their lives. And in order to do this, we now have three layers in the strategy. The first one and this one we have been already talking about is the new pharmacy, which is a pharmacy that delivers not only a digital experience inside the store and omni-channel convenience as well as we have been talking a lot over the last quarters, but also introduces a health hub in the store to perform, to support people in taking care of their health. For you to have an idea now during the pandemic we reached this week a total of 0.5 million COVId serological tests performed at our stores. We are doing tens of thousands of vaccinations every year, we're doing every time more service at the store. And now we are repacking this whole service offering in what we call a health hub.

So we are piloting still this year. It will start in the coming months, four stars with full fledged health hubs. In addition to the services, this health hub also introduced telemedicine. It's important that I'll talk about the health platform. And obviously, we have also telemedicine in our app. But what we are able to do with telemedicine in the stores, in my view, is game changer, is a ame changer in terms of the Brazilian Health System. Obviously, the Holy Grail is still the physician consultation but this is also the most expensive. This takes longer to schedule. And this requires the customer to move from the home or the office to another area to meet the physician. The pure telemedicine, which gained a lot of attention during the pandemic, is very important. But the reason -- the capacity of that virtual telematic solving problem is more limited because there is no physical contact within the patient and a health professional. We will be able to do in our health hubs what we call assisted telemedicine. And in my view, this is a huge breakthrough because the cost to be still a fraction of a full consultation with the physician, but we have a health professional doing the consultation, who's able to measure the customer temperature, blood pressure, who's able to look into the ears or in the throat see if there's an infection. So this professional can follow instructions by the physician and do a lot of and have contact with the patient so that the diagnostics above from the physician is much more assertive. Then you'll be able to do that by leveraging our capillarity.

As I mentioned before, 89% of Brazilian A class population lives within a mile from our stores. So people will be able to come to our store to do this kind of telemedicine that is very cost effective but much more assertive than a virtual one. So the health hub think to be very, very important in the future. The second layer here, the strategy is the marketplace. So we are instituting a marketplace here. We are starting a pilot in the coming days with two sellers in the marketplace. And the idea here with the marketplace is that not only we deepen the offer in the current categories. Think about beauty, for example. Today, we don't sell makeup. We don't sell fragrances we don't sell a professional health care products like salon products. So we can bring this kind of offering. We can sell other categories like natural food, like opticals, like opticians like apothecary products and et cetera. So I think it will be able to allow us to expand very significantly the services we offer. And finally, there's the healthcare platform. Not only does the healthcare I already mentioned. But then there are two other elements here.

One is a services marketplace. Each people will be able to do through the app a virtual tele consultation with a physician, psychologist a nutritionists, even pharmacists or any other professional. We will also put in place journeys to support people to take care of themselves, support healthy people in eating better, in sleeping better, in doing exercises and supporting people who have a chronic condition in managing their disease. Not only treatment, but other things as well. Imagine, for example, a customer with diabetes. This customer will be able to do an initial consultation with an endocrinologist through the market through the services marketplace. Then this customer can maybe do a subscription of diet foods in the marketplace. We can help with his journey in managing the treatment adherence. We can drive this customer to the health hub every week to measure the blood pressure to measure the sugar levels in the blood, et cetera.

So we're doing a lot of journeys to support people's diabetes, chronic situations mothers and so on. So this is a very powerful offering that we're starting to build. It changes our market from the pharmaceutical retail to an integral health market. And to do this, we also have very important enablers here that we have to tackle. So focus on people. This is not new, this is a continuous thing. Customer centricity, everything that we're talking here is about improving customer economics. It's about improving customer lifetime value, it's about improving share of wallet, et cetera. So understanding customer behavior and driving this behavior is very important. Technology, data and an agile organization. So we have now something like 20 agile teams. We are expanding a lot the structure not only within digital, but in order for us to deliver the marketplace and the health platform, the digital innovative culture and finally RD ventures. We have put in place a fund through which we can buy startups, basically health tech that will help us accelerate our digital strategy.

And finally, when we look at where we are, I mean wrapping up some of the things we said. We in a quarter which demand has gradually recovered and financial metrics are now approaching the proven managed levels. As I mentioned, we have mature-store sales, which are positive. If you take out the shopping malls, it's higher than 5%. We see also the cash cycle normalizing. As I mentioned, the digital execution is already driving significant comp growth. This is not only about reducing sales losses like in the second quarter. This has to do with accelerating revenue growth. So we had a lot of breakthroughs in digitization, 7% of digital penetration, or every store has Click and Collect and neighborhood deliveries. More than 400 stores doing ship from store, 75% of digital demand service through the store, okay?

Okay, we expanded, as I mentioned 1 hour service, and we launched Stix, which drives higher -- will drive loyalty, but also higher digitalization from the customer. And we are now launching our marketplace. We are still in the pilot with the marketplace with two sellers, and we start a pilot with the health hub as well. And finally, our last chart here, we -- in the second quarter, we were -- actually, I think it was in the end of the first quarter, we announced the formation of a grant -- a relief grant to support our communities fighting COVID. So this is basically a donation of BRL25 million to support -- and traffic hospitals in small cities and peripheric areas in Brazil. So we concluded this cycle. We donated BRL25 million to 51 different hospitals in 23 States. This was a very well organized process. We started mapping 177 hospitals. We invited 144 hospitals to participate. We analyzed 95 proposals of these hospitals, 69 proposals made sense and 51 were prioritized and the money was already donated. So where we are now? We are exactly tracking the progress of these hospitals, making sure the money is well employed and then we can really build a legacy here that not only to be instrumental in fighting the COVID in the cities, but also there will be a legacy coming forward.

So these were our prepared remarks. Let's go now to Q&A. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Thank you. The conference is now open for questions. (Operator Instructions) Now, our first question is from Mr.Joseph Giordano from JPMorgan. Joseph, you may proceed.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hello, everyone. Good afternoon. Thanks for taking my question. So I have a couple of questions on the digital front, right? So if we look back, your app active app users, it has really have really, really scaled up like towards the end of last year. It's packed toward the pandemic, but kept growing regardless if the stores were open or not. And when we look at your main competitor, the, it's stable and way behind your apps.

So here, like you mentioned, Stix, as a driver, right, to download those apps and exchange the point. So how should we be thinking about like the online adoption going forward, right?

And there was like an interesting question on the Portuguese call that would be mostly related to a potential revisit of the current store footprint, right? So you mentioned that some regions demand changes. And you also have like a good visibility if that client moved from one store to another. So I'd like to understand this trend, how should we be thinking about like the openings going forward, right? And if like the mid-term or more like short-term opening strategy can be impacted by the COVID environment, right? So maybe you give priority to some of the locations that tend to perform better, so probably like those in neighhood ones. So, thank you.

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Joe, thanks for the question. I mean obviously, I mean digital is absolutely central to our strategy. We're talking about marketplace and digital platform. Obviously, there are things we can do in the store. But in the end of the day, the customers who are able to buy in the marketplace and to take advantage of the health platforms are the customers who are already digital, who already downloaded our app and who are using our app in a regular basis. So this is the main priority for the company because without a high critical mass of digitalized customers, marketplace and health platform, they don't make sense. They fully rely on digitalization.

So if you look this year, if you look next year, obviously, we are ramping up these new layers of the strategy. But the highest priority is driving digital adoption. Right now digital is a channel with 7 % of our sales. But if you look at digitalized customers, they represent something like 15% of our top line growth. And it's very well demonstrated that when a customer becomes an omni-channel customer, these customer start spending more with us, increase the share of wallet and obviously we make more money, we monetize better these customers . So everything that we're doing is focusing and driving digital adoption, because digital adoption will allow these people to become more loyal, to spend more with us and to sustain mature store sales growing ahead of inflation. And this is also the people who benefit from the marketplace and from the health platform. So this is our focus. And we believe this transforms our execution.

We compete with 80,000 drugstores in Brazil, but the bar for a consistent digital execution is very high, this is very capital-intensive. So the kind of structure that we have today that we put in place, it probably cost us already more than 30 bps. But 30 bps for a player half our size will be 60 bps; for a player one-third of our size would be 90 bps; for a player one-fifth of our size will be 1.5 bps. So, scale matters a lot here, execution capacity matter a lot here, footprint matter a lot here.

In terms of the store footprint, I mean, we see the expansion to the -- nowadays, not only as a source of revenue growth, but as a source of customer acquisition. The expansion is our customer acquisition cost. So just put in perspective, let's say, last year, if a store sold BRL 700,000, it doesn't matter if it's new customers or if its existing customers increasing spending. Nowadays, it matters. So, we're starting to have targets not only for revenue, but how many customers these expansion is bringing to the company. So today, an expansion then brings us to new areas, new neighborhoods, new cities, is more important than an expansion that just increases share of wallet. So we are looking at the expansion with the consumer lenses, with the customer economic lenses. This is how we approach this.

In terms of pandemic, I mean, obviously shopping malls are suffering now. Shopping malls are so important as an entertainment center that I don't have any doubts that shopping malls will become again very, very important. I think that the permanent change we may see relates to commercial areas. So if you look at an area like Faria Lima, an area like Paulista, downtown areas that have relied on people coming to work. These areas are suffering a lot because people are doing way more home office than before. And home office will keep on existing probably lesser today, but it will go on. So we could make a point that Paulista will never be the center. The center of Rio will never be the same. But this is compensated in the neighborhoods, people are more at home, they -- more, they buy more in the neighborhood store. So we have to understand where the west thing stabilize, how important shopping malls will be, how important these central areas will be.

And obviously, there could be some improvements in the portfolio, maybe if you go to Paulista, right now it's a very expensive area, very high rentals. If the structural traffic in Paulista is only 70% or 80% of today, maybe some of the store will make sense anymore, either we renegotiate the rent or we will close one of the stores there, same thing in downtown, same thing in Faria Lima. So there could be a footprint management activity to be done after the pandemic, even shopping malls are talking. Obviously, the main shopping malls, they will, I think they will go on and they'll be healthy, but there could be a couple of shopping malls that never recover, that depends a lot on people in commercial areas having lunch there. Maybe these shopping malls will never be the same again.

So we have to understand how things normalize. And based on that, we can make more permanent decisions.

But you're just talking about tweaking the pipeline, the portfolio, We're not talking about anything major here. We already have a ton of stores in the neighborhoods. And these are the definitely winners from the pandemic.

Q - Joseph Giordano {BIO 17751061 <GO>}

Perfect. If I may follow up on the ad and the health platform you're trying to create around it. We have a few different initiatives taking place in the market that are coming from diagnostics, are coming from few plays on the consultation side and part part coming on the hospital side. How can you think about like the opportunities are, let's say merging? So we have like JV on Stix. So it's a later, a different game, but with CBD. But what's the mindset of the company partner at with other players here and obviously, potentially expanding the services you had at store level?

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Well, obviously, this is a very ambitious strategy and we are fully aware we can do everything here on our own, right? So this is an ecosystem strategy. And an ecosystem is, a recognition that you can do everything by yourself and that you need partners to do. So here we have the opportunity of adding partners to our ecosystem, but we can also be part of other ecosystems. The health platform is a prime example here. We are starting our own platform Fleury is doing their platform. Einstein is doing their platform. Probably, Dasa is doing their platform. And these platforms come from different vantage points. So I believe we have a right to win in a B2C platform.

For the simple reason that we already have 40 million customers that we relate every day. So bringing a customer to our platform is very easy. We don't have to spend millions in Google, Facebook and things like that. So we have the right win here. But obviously, we don't have physicians. So we'll have to cooperate with someone in telemedicine. We don't. We don't do lab exams. Even if we're able to collect blood at the store, we'll have to partner with someone. We can partner with Fleury. We can partner with Dasa. We can partner with Einstein. This is normal.

When you look at these other players, I think their starting point is in the B2B market. So they already have physicians, they already have lab infrastructures, and they're trying to access demand through companies and this can absolutely work. So we're talking different things and different vantage points and different starting points. Obviously, over time. Maybe we can with the assets we have in place, we can also do things on the B2B area as well. So I can see a world in which we are, let's say, we have Fleury and Dasa as partners in our ecosystem, but we can be a matching partner with --. There's nothing, there's no problem about that. The customer will come from us sometimes, it will come sometimes from them. But I think the collaboration here is way higher than any competition that may happen as well.

Q - Joseph Giordano {BIO 17751061 <GO>}

Perfect. Thank you, Eugenio.

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Thanks.

Operator

Our next question is from Mr.Guilherme Assis of Safra.

Q - Guilherme Assis {BIO 21406331 <GO>}

Thank you Eugenio for taking my follow-up call after the Portuguese one. So I think sticking to the discussion about the opportunities and the company's strategy to become like a health hub. Can you comment a little bit, Eugnio, on what are the discussions or the ongoing discussions on the regulatory front, right? Because from my understanding, there's been like a temporary regulation for telemedicine and other things on that front during the pandemic. And I know there's some public hearings at Anvisa. Can you talk a little bit about what are the main points of the discussion? And how could they bring about new opportunities for the company on new services and types of revenue streams for Raia Drogasil?

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Guilherme, thank you for the question. The pandemic has been a huge accelerator for a lot of things. Like I mentioned, we have done up to today 0.5 million serological tests at our stores. We -- and vaccinations have been very high this year because everybody was looking to get vaccinated before the -- in the beginning of the pandemic. And not only for us, but when you think about telemedicine. Telemedicine was something very small. It was a promise for the future. And all of a sudden telemedicine is here. And this is a reality that cannot get back. The physicians who used to be against telemedicine, today without telemedicine, they would not be billing. Simple as that. Physicians are very happy that telemedicine exists because doing social isolation, their revenues would have been zero, nobody will be doing any consultation, if no telemedicine.

So when you get the customer user can imagine, that physician uses telemedicine. This is like an Uber effect. At some point, the only thing the legislation can do is follow suit. So there is no way -- if when the genie goes out of the lamp, there is no way you put the genie back. So this has to do with all these things. So Anvisa is now conducting what they call public consultation, Abrafarma is very close to this, exactly to make some of these things permanent. And for example, things like doing exams at the stores. There are -- even today, there are ways to do it. There are loopholes, there are injunctions. So we're already doing these things. So what this is doing is giving permanent status to this thing.

So the mindset of Anvisa this day is very evolved. Anvisa is seeing how important pharmacies have been during the pandemic. And the other aspect here is, we hope we are in the virtue of having a vaccine. How can a country like Brazil or any other country for that matter, all of a sudden vaccinate 100 million people in couple of months? Do you think they can do that only through the public infrastructure? There's no way you can do that in an orderly manner, in a discipline manner, if you don't resort to the private system. So Abrafarma has made all our stores available for the state, municipal and federal government to assist the COVID vaccination, and we don't need to charge anything. We have the place, we have the location, we have the pharmacist, we can schedule vaccinations by app. We're talking 8,000 stores belonging to Abrafarma. So obviously it depends on the government embracing that offering on the municipal level and so on. So, we'll see how it pans out.

But in my view, in a situation like this, any authority being municipal state of -- or federal doesn't have the right of not leveraging every resource available. But so in the pandemic, any doubt that anyone could have that how important the pharmacy is, as a cog of the overall health system, I think they have vanished. I mean the pharmacy is the cog of the health system and has the highest capillarity and highest frequency for interaction with consumers. So in my view, obviously, this discussion for this is important, but the genie already out of the lamp, and there's no way that genie is getting back.

Q - Guilherme Assis {BIO 21406331 <GO>}

Perfect. And just a follow up to that question, Eugnio. Like if you think of the footprint of all the associated chains to Abrafarma, we have over like 8,000 store locations in Brazil, right? This is really something big. And I understand the discussions at Anvisa, like they come in a way that allow a lot of these services to be carried out at these locations, right? How do you see the lobby of healthcare plans or labs inpatient and outpatient labs like the discussion that is like happening at Anvisa. Do you think there could be any constraint or any drawbacks from these discussions?

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Guilherme, for me, it's very simple, public interest comes ahead of any vested interest. So obviously, as the pharmacy gets broadened in terms of its scope of practice, starts doing other things. And obviously, there is there maybe overlaps here and there. But the first point is, in my view, this is a myopic discussion. I mean, a pharmacy will bring more people to the health system for the simple reason that we have millions of undiagnosed people with diabetes, high blood pressure, et cetera. So when the pharmacy start providing the service, there are a lot of people getting diagnostics who get to go physician consultation, who we willget to the labs to do exams and things.

And so in my view the discussion is myopic. But even if it weren't, I mean, it's pretty obvious the importance that the pharmacy has. Probably interest comes for us, Anvisa knows it. Vested interest here are not relevant as far as the as how the policy will move forward.

Q - Guilherme Assis {BIO 21406331 <GO>}

Okay. That's very clear. That's helpful. Thank you, Eugenio.

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Thank you.

Operator

Our next question is from Mr.John Ferreira of Nau Securities. John, you may proceed.

Q - John Nelson Ferreira {BIO 17531063 <GO>}

Hi. Thank you. Hi Eugenio. Just two quick questions, if I may. Firstly, could you give a sense how the combination of the new loyalty program and the digital promotions will have on the gross margin in the near-term?

And the second question is really if you can give some sense also what kind of OpEx you're looking at regard to supporting the growth of your digital marketplace strategy? Thank you.

A - Eugenio De Zagottis {BIO 7193695 <GO>}

John, thanks for the question. I mean, this is very important. Obviously, our whole focus is on the long-term and in my view, what we're doing here with the new pharmacy with the marketplace and with the health platform, in my view is transformational. In my view, this company in five years will be completely different and the value creation that we can do here it is my view astonishing. This is what the management believes. This is what the founding and majority shareholders of the company believe, and we're driving this journey with our eyes on the long-term.

Having said that, it is obviously that we have to build an infrastructure and it's not an easy one to do for the marketplace and for the health platform before we have any billings related to that. So yeah, G&As. You talk about digital. I think the G&A, we have already put the bulk of the required G&A probably already in place. So there will be tweaks here and there. But I think the G&A we have now already paid for more than 20 agile teams analytics and other stuff. With digital, I think the impact is more is that we're seeing an acceleration. We are looking at without the shopping mall suffering, we'll be at plus 5% mature store sales growth versus inflation around 3%. So it's obvious, the structural momentum that the digital is already driving.

In our view, it will be the same with the marketplace and health platform. I mean, they will pay themselves handsomely in the future. But yes, when you think about next year that will be G&A investments, there won't be followed by revenues in the short-term. When you think about gross margin, we are investing gross margin to drive proposition, but this gross margin is already driving higher sales. In my view, it's already paying itself. But with the marketplace and with the health platform, there will be costs ahead of revenues. We're starting -- we're now in our planning process. We're starting now to get a better sense of what's the combined size of this CapEx and OpEx investments. There could be an effect in terms of our margins next year. But for us, it doesn't matter, we're looking at long-term value creation and we have no doubt whatsoever that we're doing is transforming the company, and we will open a completely new avenues for value creation over the long term.

Q - John Nelson Ferreira {BIO 17531063 <GO>}

Thanks for that.

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Excellent. Thank you, John.

Operator

(Operator Instructions) It appears to be no more questions. Now, I will turn the conference back to the company for their final remarks. Please, you may proceed sir.

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Okay. I would like, first of all, to thank you all for your time and attention and for your support as long-term shareholders. And just to wrap up some of the things we talked during the call. The first, I mean, this has been a recovery quarter, so not a fully normal quarter, but a very robust quarter in my view, especially as the pandemic still roams in the horizon. But we were able to grow mature stores ahead of inflation. As the freestanding stores have more than paid for the pressure of the shopping malls, so freestanding store growing mature in excess of 5%, but -- and overall, still positive even with the shopping malls. So this is -- this shows the robustness of the company, the resilience of the company, and the strong momentum, the strong structural momentum that we have and we were able to grow EBITDA, grow net income, maintain our margins even in the face of a pandemic.

We are advancing very fast in our digital transformation. 7% sales from digital channels, which is similar to the previous quarter even though pedestrian traffic has come back to the store. This shows a change of behavior. This shows how this new value proposition, how this new just execution is already happening and raising the bar because once the customer gets used to a certain standard, there is no way we get back to a lesser standard. So this is things that will help us maintain this customer, increase their loyal, et cetera. We keep investing in digitalizing customers with things like smart offering. We are launching Stix, which is another driver not only of loyalty but also of digitalization, and we keep enhancing our logistics infrastructure. As I told you during the prepared remarks, specialization and capillarity are the two biggest moats that we have here in terms of the digital execution. No marketplace or no pure-play platform will be able to emulate these things. The kind of specialized offerings that we have with digital prescriptions, managing programs, ideas, products, manufacturers, having partnerships with health insurance, et cetera, et cetera, et cetera.

And when you think about the convenience is leveraging the 2,300 stores that we have, 90% of the -- 89% of Brazilian's A class population lives within a mile of those stores. We now deliver the bulk of, almost everything same day, the bulk of what our deliver are service, it's coming from the stores and it's coming less than four hours. And we'll significantly upgrade our logistics to one hour. By the time we have achieve one-hour delivery, this is something nobody else can even dream about if you go outside of our sector. So here, we are the natural owners of this space. And not only I don't think any marketplace or pure-play or entrant can challenge our position here, but I think that we will gain more share every time by having a digital offering way above everybody else. Because this is an execution game. This is a capital allocation game, and we simply have more resources than anyone else.

And finally, we are also advancing in the last two layers of the strategy, the marketplace and the health platform. Our marketplace is entry pilot stage of the two initial sellers. We already have several important negotiations of upcoming sellers to plug in the platform. With the health club, we will start pilots this year still with four stores with full-fledged execution, telemedicine integrated with our app. So we are already building the future. And I think this future is a transformational one. I think it puts us in a completely different space in terms of the market we serve. In terms of the role we have in supporting people in their health care journeys.

The role we can have in helping organizations like health insurers, companies in taking care of their own people, leveraging the universe, the relationships we already have. We are investing in startups. We did our first investment, and we have another four, five highly transformation of start-ups that we are negotiating with in different scenarios, scenarios involving full control, scenarios involving path to control, scenarios involving permanent minority stake. So we believe a lot in this kind of cooperation that the ecosystem that we are building will require.

So again, this is a long-term view. Our majority shareholders are very long-term oriented. We're fortunate to have a shareholder base in the market that is also long-term oriented. I could mentioned several shareholders that have been with us since the merger or even before, when they were higher and the shareholders. So for those who are in for a long-term journey, I think we can deliver. Our yield is extraordinary. And we are highly optimistic about the future we are now building. Thank you very much.

Operator

The RD People, Health and Well-being Conference Call is now finished. Thank you very much, and have a nice day. You may disconnect now.