

## Q3 2017 Earnings Call

### Company Participants

- Felipe Negrao, Chief Financial and Investors Relations Officer
- Flavio Dias Fonseca da Silva, Online Business Unit Officer
- Peter Estermann, Chief Executive Officer
- Unidentified Speaker
- Vitor Faga de Almeida, Furniture - Business Unit

### Other Participants

- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Richard Cathcart, Analyst
- Robert Ford, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

### Presentation

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

Good morning, everyone. Thank you very much for being with us in this call for the third quarter. I would like to mention that we have our officers here, Felipe Negrao, CFO; Paulo Naliato, Executive Officer for Operations. Also, Vitor Faga, for BU Furniture and Marcelo Lopes, our Officer for Supply Chain and Logistics and also our Sustainability Officer, also with us our IR Officer.

So, in addition to mentioning the highlights of this quarter, we also want to dedicate some time to talk about our plans for the future and also about the projects that we have for 2018. These projects will be crucial to pave our path ahead in the next few years. We have ended the quarter with operating indicators and, as well as financial indicators, presenting a sound and significant performance, both vis-a-vis the prior quarters, as well as vis-a-vis the same period of 2016.

We understand that this is crucial to bring even more trust in our team and we understand that we are on the right track and that everything that we are doing, has a direct effect on the results, as well as in the satisfaction of our customers. We also understand that -- that there is a positive point for the market, because we have been able to deliver everything that we commit to deliver.

Felipe Negrao shortly will talk more about the figures and the main financial highlights of the company. I think we'll spend around 20 to 25 minutes at the most to tell you everything that we want to bring to you and then we'll start the Q&A session.

So about the results that we have today, I should highlight four main topics, the first one is that we had strong growth in same-store sales 18.6%, consolidated vis-a-vis the market that according IBGE is growing around 9% to 12% depending on the market segment. Also, we have had an expansion of the gross online GMV with margin expansion vis-a-vis a market that according to EBIT is growing at 9.4%.

And our consolidated EBITDA margin was 6.1% also with an expansion both vis-a-vis the prior quarters, as well as when we compare that to 2016. About the comments on the third quarter, I would like to highlight that in the online we are still growing with a positive EBITDA margin consistently. Now I'll let you know a little bit about the projects that we have concluded this year and that we will still conclude within 2017 that is in the next few months.

The first one is the conclusion of MOVVE 1.0 rolling out, here we highlight important advancement and much better than the one that we have planned before. Just to give you a few examples, we have met our sales goals that were very aggressive in the six of the nine months of this year and last year, that percentage was very low. Also, 40% of stores in the beginning of this year have reached around 90% to 110% of sales targets and that percentage is already over 73% now in August.

We left a level of only 45% of our salespersons meeting the target, and now we are in August at 65% of that. All of that brought about our brick and mortar stores conversion of sales rate with over 20%. The version of MOVVE 2.0 that we have been testing for the next -- for the last few [ph] months in 40 stores and it's going to be rolled out for over 50 stores, with up to December of this year, and this is going very well.

In the other stores if we complete, our total stores of 966 stores, we will be concluded up to April of next year. We will make available for our sales team, additional tools that will benefit; first our customers by having assertive sales both by the supply of the right product and that fits exactly what the customer wants and also supplying what is the best product that we'll adjusted to the payment, the type of payment that our customers need, we'll have a sales team that will help customers to make the right sales, those can be more profitable and also will be able to expedite sales this way.

And finally that's going to benefit the company that, when defining a commercial strategy that is more competitive, we'll be able to stress that model that we call win-win-win generating better results for customers, employees, as well as having happier shareholders. We have great expectations, very positive ones about this new model. The second topic are, our 51 premium stores that still have a very positive performance both in growth, as well as in profitability.

For the first half of next year we are going to increase the number of stores under that model. We have already mapped over 49 stores that have the profile to be managed

under that concept. The Click & Collect or Retira Rapido is growing in a consistent manner, expanding the share of online sales and in September we reached over 27%. In eligible products we have gone over 32% in the same month.

We concluded the first stage of adjustments in our marketplace platform and from now on we have 3,800 sellers and 1.5 million SKUs, this is ready to regain growth with quality and service levels as our customers deserve. And finally we are harvesting the fruits of all initiatives and all task-forces that we have developed to work on the first nine months of this year in order to improve the service level for our customers.

Just to give you a few examples, the number of complaints in the Reclame Aqui has dropped over 50% and this is still improving month-after-month since January. The NPS for brand, for the company has improved significantly as well reaching 62% in September and the NPS for product delivery to customers is already higher than 76%. All of that shows -- that it is possible to reach the excellence level.

Now, I will tell you a little bit about the projects that are going to sustain our growth in the next few months and that will also be the support for our competitive advantages. Those projects are part of what we call the transformation of Via Varejo, the first of them is the growth of our marketplace platform, using our full-commerce model in 2018 we will be offering in addition to our online sales channels to consumers or to sellers, will have available 1,000 stores for the Retira Rapido or Click & Collect. We'll be enabled to have available all our logistics platform, which is extremely competitive, both in cost, as well as in service levels.

And our payment means of credit, market intelligence, the strength of our brand will be available for our marketplace sellers and we will have the opportunity to talk more about this subject in the next corporate events that we'll have this year. And the project that we called Via Unica that we are developing with Accenture is already going to its second stage. The first stage of three months, we had a lot of work and it was characterized by the mapping of all customers and all transactions in all our channels, in order to define, our strategy based on big data and the use of tools of advanced analytics. All of that is going to allow us to have greater sales conversion, better acquisition costs, as well as an improvement in the loyalty level of our customers.

We will also have the opportunity to talk more about that in our corporate events. Finally in January, this new sales platform for brick and mortar stores will be an important landmark for the company. That platform is already in its final test stage and it will allow us to have significant advancements in the relationship with our customers in all of their journey with us.

And to conclude, I would like to communicate that we have approved with the Board of Directors the expansion plan for brick and mortar stores for 2018, we are going to grow and have 70 and 80 extra stores next year and we have also approved the transformation and innovation strategy that will support our expansion in the next three years. The final figures for these approved plans are being detailed, especially the CapEx involved and that budget will be approved by the end of the year.

So, now I turn the floor to Felipe, who is going to talk more about our financial results.

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

Good morning everyone. Thank you very much for being with us. So let's start talking about the results and business perspectives. On slide number three, we had growth and gain of market share both in the brick and mortar market, as well as on the online. In the brick and mortar, we had a growth in the same-store sales of 18.6%. In the online, we had growth of gross GMV of 24.4% with a positive EBITDA.

All categories in this quarter had growth, something that we did not see since the first quarter of 2014. The Click & Collect and Retira Rapido has reached 27% of the eligible products online, which is important to have happier and more loyal customers, also lower logistics costs and services efficiency much greater. Therefore the transaction is much more profitable than transaction of a pure-play of e-commerce.

The development of the online and brick and mortar stores activities integrations along with the effect of operating leverage are reducing SG&A has resulted in a significant improvement in the EBITDA margin, reaching 6.1%, and the net income was BRL14 million vis-a-vis a pro forma net loss of BRL156 million in the same period of last year.

On slide number four, we have ended the third quarter of 2017 with a high gain of market share, growth in the same-store sales for brick and mortar stores of 18.6% and growth of GMV of 24.4%. But the beauty of these figures is not only in the growth, we have grown and we have improved the profitability and we have improved customer satisfaction. Looking ahead, we have several projects that aim increase the competitiveness of the company and they may be translated in greater margins and/or greater commercial aggressiveness. As Peter has mentioned, among those we have the regional pricing and a new model of compensation for salespersons.

On the online channel, we still have our strategy of optimizing our marketplace platform in order to stress our partnership with the main sellers that are in-line with our brand strategy, as well as with the purchasing experience that we want to promote in our websites. In 2018, we will offer our sellers and our consumers our full-commerce, that is our brick-and-mortar and online stores, our logistics network and our financial services. We have ended the quarter with 966 stores, as Peter has said, we have had the approval by the Board of Directors, the plan to open new stores still this year will open some smart stores and in 2018, we will be opening at least 70 stores.

On slide number five, we have ended the third quarter of 2017 with adjusted gross margin of 32.8% and SG&A of 27.1% of net revenue, resulting in an EBITDA margin of 6.1%, an improvement of 195 basis points vis-a-vis the same period of last year. Our projects and the operating leverage of the SG&A will allow us to increase our margins, and also to be more competitive.

On slide number six, the company maintains its sound financial position resulting from a high cash generation and excellent management of the working capital. The adjusted net

cash grew BRL665 million, totaling BRL1.8 billion. It's important to mention that we chose to work with higher levels of inventory until the end of the year, so that we can be well prepared for a good sales scenario in the next few months. But this higher level of inventory will not have cash effect once the suppliers are financing our inventories. The financial results before monetary restatements has improved in 230 basis points, thanks to better net cash and lower CDI. The net income of the company was positive in BRL14 million vis-a-vis a pro forma loss of BRL156 million in the same period of 2016.

So, now I will open for the Q&A session.

## Questions And Answers

### Operator

We will now open the Q&A session. (Operator Instructions) Mr. Thiago from Itau BBA would like to ask a question.

#### Q - Thiago Macruz {BIO 16404924 <GO>}

Good morning. About what you mentioned in regional pricing. I would like to better understand where you are at in this project? I understand that you will have special prices but what type of benefits have you been able to see with that and what we can expect for the next quarters, as a consequence of the implementation of this project?

Can we say that this is going to have a positive impact in the gross margin in the short-term? And the second question is -- I'm impressed with your Click & Collect 20% -- 22% already. So what can you generate in terms of value? When the customer goes to the store to pick up a merchandise. Can you give us an estimate of services -- additional service penetration? What can you sell to those customers, when they go to the store to pick up a product? These are my two questions. Thank you.

#### A - Unidentified Speaker

Thiago, thank you very much for your question. About the platform for pricing, the main competitive advantage here and that we are already starting to use in the [ph] platform is that we are able to price per micro region. Actually today, we already can see this pricing process per stores not only per store, because we analyze the competitive market around a group of stores. And then we can -- we have a very assertive direction of our products per category and also we are able to price those products to compete specifically in that micro region, very different from what we were doing so far, which was to price it all over Brazil.

Therefore, we can adjust ourselves faster to the competitive market on a daily basis and also we can have the right price for each micro region. We expected that according to what we have seen, do have a significant impact in the margin of the company and the results. I cannot give you figures yet about this, because -- since we are in the first quarter of this -- the process roll out, I would not like to say anything, anything right now.

But I can tell you that the results are positive and striking. And now about your Click & Collect question, as well as services penetration up-sell and cross-sell, I can tell you that we are in an initial stage, we have rolled out in all our stores that process since February, we are concentrating our efforts right now in order to increase the take-or-pay and we have more assertiveness in the products that we make available in the Retira Rapido.

So this first stage is going very well, as you are able to see by our figures. And so, now we start also expediting the process because of our new compensation model for salespersons. So we are able to encourage in a very much directed manner, our sales team to do up-sell, cross-sell, and sales of services.

So, I would say that in the Click & Collect, we are in a consistent stage in terms of getting the right products that are eligible for that mode and the customers like to pick them up at the stores. And by this mode, we are able to have a significant gain in terms of logistics costs and also service level for customers because probably you have, probably saw that in the Click & Collect, we are able to do deliveries within 48 hours and sometimes even on the same day.

And Thiago two comments on services. First, not long ago, we had -- redistribution [ph] to sell services to that multi-channel client of the Click & Collect, because we have partners in the e-commerce and also we have other partners in the brick and mortar stores. And then we would have a problem of exclusivity because I would not be able to provide those services. And now we solved the problem, we don't have that issue anymore. We are able to sell, so this is the first topic. Second, I think it's important to stress that the services share on the online channel is low, it's going to increase. But that's not something that is going to increase too significantly, because I have to change that transaction into a quick transaction in the e-commerce.

I cannot lose the customer in the middle of the way. Of course, we do have opportunities, it's going to improve. But that's not something too significant. But in the brick and mortar stores, that share is very high. So anything that I do, you know, if I bring that online customer to the brick and mortar stores and if I can do anything, to improve sales there, that is significant then, then we have to have that in mind too.

**Q - Thiago Macruz** {BIO 16404924 <GO>}

Okay, excellent. Thank you very much for your answers.

**Operator**

Next question is from Robert Ford from Bank of America.

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

Thank you very much. Good morning everyone and congratulations on your results. Can you comment about the furniture growth. So, you had growth for furniture, but this in -- this third quarter, it seems to be very high growth in furniture right?

## A - Unidentified Speaker

Thank you very much for your question. I will turn that question to Vitor because he is responsible for the Furniture BU.

## A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Hello, Bob. Well addressing your question. What have seen, is that this category is recovering itself, whether by a recent recovery of the market, but also because some actions that we have rolled out in the company. Among those actions, I should highlight four of them.

So over the year, we implemented a new standard model for furniture sales that involves adjusting the team, having campaigns, training and also review our samples and historically out. And in order to have a better sales service. And also important is the development of new products, we have improved the design, we are trying to have also an accessible design to everyone. And so far we tried to launch 70 new products that are much more in line to our consumers' desires.

We also have a communication process that we changed not only integrating offline marketing, but also digital marketing, the marketing 360, that also directed to our consumer. But especially creating some seasonal events; such as furniture festivals, we already have three along the year, we will have another one, and that is helping us not only to bring to the consumer in new launchings, but also having Via Varejo or either Casas Bahia or Ponto Frio, as a destination point, a reference for the furniture category.

And finally in integration of the whole process, the commercial process, the retail and production allocating more profitable products to our production. And also having a partnership with several other manufacturers to -- then have the products that Bartira cannot supply us. About the growth, it's important to see that in the last months, the market is changing, especially for furniture that's a category that did not perform well in the past years because of the crisis. And now we see a change in the trends in the last few months and so we are taking these actions to be able to take advantage of that and leverage even more the results. And right now, of course, looking for a right combination of growth and profitability in this category.

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

And how do you position yourselves with the competition? Do you have working capital, room in the stores? So how does it work?

## A - Vitor Faga de Almeida {BIO 16103413 <GO>}

Yes, it's true. We have a higher margin in this category, but it has a greater added value. We could see this as an opportunity to differentiate ourselves from the competitors. This is a category, which we have to be careful with the assembly, delivery. These are services, which we could render and we can be different from our competitors. But we must not forget online services.

FINAL

Bloomberg Transcript

This is something recently -- recent in online and we have a great opportunity online. So this is one of the drivers of the activities, which we are carrying out at the moment. We have a project of changing things online and make it more -- and adapting it to furniture, and we have had positive results. We want to bring the furniture consumer to special service. And in the fourth quarter of 2017, we will do more of this and it will help us to make the best of the opportunities of growth for this market.

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

Thank you very much once again and congratulations.

## Operator

Mr. Richard Cathcart from Bradesco has a question.

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

Good morning, I would like to repeat a question, which I asked three months ago. When I was talking about the online channel, it's gone up, yes, but it's still below your competitor's level. So perhaps Flavio could talk about this, what if this rate is going to improve and the marketing which you have to do in the next months to improve things. And another question about the Click & Collect, I think most of the Click & Collect is available in 24 hours and in some stores it's going to be [ph] 48 hours, could you make it 24?

**A - Flavio Dias Fonseca da Silva** {BIO 18281132 <GO>}

This is Flavio, speaking. Good morning to everyone, that has with us. You are right, Richard. We still have a lot to do to improve our client service. But it's worthwhile recognizing the size of what we have already done. The rates which are shown here contain a consolidated position for 12 months. So we still carry over in these rates.

We still have some months from last year -- this year, when we were in the initial phase of the task force that we had to improve our rates. If you look at all the banners, we have all the banners at good or excellent. There are no more regulars. So for some time now, we have had a well recognized position by our client, with the numbers that Peter has already mentioned, which -- and complaints have been reduced 50% and it's very important to know whether things are delivered on-time and complaints in general. All these rates have had a very significant improvement and they are already rates comparable or better than the March benchmarks of the segment. This assures us therefore that these indicators and the recognition of them will continue to improve. We have still to improve, we still have room for improvement.

We have an important project coming in -- in the next few weeks, which will automate the electronic service via telephone and the implementation of an automatic service, we'll talk about that at our corporate events. But it is a very good project, which will expedite our client service even more and we are also investing in our website using an artificial intelligence from IBM to serve our clients and we also believe that this will grow and bring greater advantages.



Another thing connected to your second question to improve our client service is the growth of the Click & Carry. The client satisfaction with the Click & Carry will improve even more and the term that we offer today has a chance of being quicker. We have two modalities. First, the client can take a product from a store, which is in inventory. So the process can happen even that same day that he made the purchase and the second case is, when the product is not in inventory, but we call for it, so there it takes a bit longer up to 48 hours.

And there is a general movement in the company to increase the quantity and participation of sales of this first modality more that is if the product in inventory. And this movement involves people from all areas and basically, we are giving more intelligence for dynamic movements and it will bring about the opportunity of selling a greater share, of products as well, that are already in inventory. This will happen and we are working hard on this, because the greater the share, better our service and the better the satisfaction of the client.

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

Thank you, Flavio.

## Operator

Mr. Tobias Stingelin from Credit Suisse has a question.

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

It's a question to Flavio. I would like to know about that process of integration, the alteration of e-commerce, it continues to grow. But what are you doing? Are you investing in technology and other incentives, unifying the company for the service. So could you elaborate on that please?

**A - Flavio Dias Fonseca da Silva** {BIO 18281132 <GO>}

Good morning Tobias. You are right. We have done a lot in the process of integration. We have mentioned this in other calls and the speed with which we've manage to do this integration and how it reflected on operating quality and the quality of our figures is very clear in all our financial statements that we shared with you.

This integration process is now entering a final phase and this final phase will be characterized by the technological issues and the fiscal issue. By the next semester around April or so, we will already have this process integrated and complete. We are not going to do a big bang of integration as from February, we will start a continuous migration, just complete to the first, two or three months of the year as a technological platform and fiscal issues. But regardless, we still managed to gain a lot of operational synergy and this is reflected in the cost of logistics, of delivery, of inventory, but we have not yet finished this systemic integration. What exactly is it? It is to, it will help us to expand all our capabilities of the Click & Carry the faster sale turnover of the inventory and marketplace.

FINAL

For all our stores, same as infinite corridor. The many stores who receive all the products that perhaps the client might want to return and he can go to the store and return them. And several other clients of multi-channel that we have not yet done, but as from the beginning of the year, this will all be released. And we are working very hard to be able to do this.

And Peter also said to you about our ambition and the size of the investments that we are making in technology and via UNICA project that we are doing together with Accenture. This will inject very quickly and has already started doing this. And now in the second phase where we have greater possibility of injecting capability, analytics and CRM, which will make very many people quickly increase the efficiency of all our efforts, both media and conversion in our channels, bringing about more segmented experiences or even customized one-to-one.

We continue to have our agenda with Watson which is a tool that will help us both in our sales process and service. And the sales process, we have a pilot already running and in Ponto Frio, for the sale of smartphones where the service is a 100% by IBM's Watson and with cognitive identification and based on questions and answers indicates the best product for that particular client.

So as Peter has said, we will be able to sit down with you and show you these projects in greater depth very soon. And I'm sure that you will see that there are some wonderful things about to happen.

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

Thank you. Peter, what will you be investing next year, you talked about several projects and marketing et cetera and investing in technology and what about CapEx?

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

Tobias, we are just finishing the numbers, obviously the investment will be great, greater than what we are doing this year. We have not yet approved these final numbers, we will be approving this by the end of the year with the 2018 budget and we will communicate this to you, but we are very optimistic regarding what we have to do.

And on the other hand, you have this challenge of investment that we have also represents a huge increase of profitability for our team because, if you have integrate 70 stores and all the fronts of improvement in our stores will demand from our team concentration and dedication. And we will continue to do what we have done up to now to deliver what we have promised to deliver. I would say that our execution challenge continues and we will continue very strongly next year. But as we have shown up to now, we trust that we will deliver still a lot during the first half of next year.

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

Thank you so much.

Bloomberg Transcript

## Operator

(Operator Instructions) Mrs. Irma Sgarz from Goldman Sachs has a question.

### Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. I have two questions. First to Flavio, about the full-commerce model, what are you thinking about the benefits and the economics of this project. Are you going to absorb the incremental costs. And focus in bringing the maximum of sellers from marketplace to this model. Or are you going to try and increase the take rate? So I'd like to know what's your strategy will be? If you could just elaborate on this especially about the costs and attracting the sellers and the profitability of the operation.

The second question is about regional pricing. I think it's a very good idea. It's great that you have this possibility to do pricing by micro-region. But my problem is how this is going to be married to your online strategy. The prices in the store generally are higher than the online. So how as you're going to offer products online more and more. There will be no migration and obligation of having a convergence between online prices and store prices.

### A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

This is Flavio speaking, as Peter said we will be acting aggressively on this but our basic assumption is to do this sustainably. We believe that we have a series of exclusive assets to Via Varejo and which today are only for our clients and we must and we should use these assets to generate value for the sellers. In a way, we will try to modularize this service. And on a service menu, it will be possible to choose what you want.

Are you going to just use inventory, or inventory plus, transport or whatever. There are several other complements that we are putting in our value statement proposal that will differentiate things that are on the market now. And obviously what we are going to charge, the seller will be associated to the amount of services that are chosen, always in a way that the seller sees value.

So we on our side, we'll try to make our assets more profitable. That we bring value to the bottom-line and also that the seller realizes that if he carries out the services with another company they won't have the same value as with Via Varejo. And therefore we think it would be a conjunction and the charge will be according to the services chosen. So we will have this as a strategy, and next year, put it into practice.

Thank you for questions. Regarding the regional pricing, I would like to say that this tool today is already implemented both for the brick and mortar stores and online. The team that deals with this is a team that sees two channels at once and has a very good interface with our commercial area activating products, so that we have the best balance between the online prices and the offline prices.

Today we already know and we know clearly what the categories are that tend to be better on one channel or the other and like the Click & Carry, this has become even more evident. Just to remind you, we have been working hard in reducing distance between the

FINAL

Bloomberg Transcript

online prices and the brick and mortar. Ever since we integrated the companies, we have been doing this and today we have already different prices between the online and offline, which are very healthy.

And just a year ago, it was not so. Today we have through the pricing on a sole [ph] platform, we have price levels which will allow us to live harmoniously with the two channels. The difference between the two channels has been reduced significantly. And today, I think we are at a very good level regarding price difference and we are competitive on both channels. And no cannibalism, quite the opposite. And you can see this from our earnings, we sell on both channels.

## Operator

Gustavo Oliveira from UBS has a question.

### Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning Flavio. I think in the first quarter, you said that you were holding back for growth of sellers in the marketplace to adjust the service level quality. Has this been done or how quickly can you do this? Or will you have to wait till next year? And I know that other competitors are growing maybe a 1,000 sellers per semester. And so I'd like you to talk about this growth, please.

### A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Thank you, Gustavo in fact that phase that we commented about, if we manage to improve the quality of our sellers base, it would be great. We've already done with that. We have chosen the sellers, we have got rid of the sellers that were deteriorating. But our intention is also always to help them to overcome their difficulties. We don't want to get rid of them, we want them to improve.

But unfortunately, even with the support we offer, is it possible to do this. So the cleanup that we did was of these cases where we couldn't do anything, but we have success stories where we have been together with the sellers, been able to revert, a position of poor quality. We have a much more healthy basis and this is reflected on all the operating and measures and contrary to what some people imagine.

This does not mean a sales reduction of our marketing, but it's our channel that is growing in sales. And so foods [ph] approval, so we continue to focus on having more and more offers for the clients, but not necessarily more sellers. So we're not really concerned if we have an extra 1,000 or 5,000 or 200 sellers a month. Our concern is to offer a portfolio growth that makes sense for our clients and that this portfolio being delivered with quality.

So there is no point putting on the 25th seller selling the same products, what value added is he going to offer. But it is important that we have another product that we don't yet have. And make sure that this product will be delivered according to our quality standards. So we want to maintain the service level, we want to maintain this expansion with the quality of our selection and assortment. And strengthen this process because

besides supporting people today with information and management, we can also support with our assets, our good delivery, our good storage, good services et cetera. So we think that this expansion will grow with quality, though there is no euphoria or no excessive enthusiasm about putting the maximum number of sellers a month. Which some of the competitors have done.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

I have one more question, regarding the plan of stores. So, you're going to put in 78 stores. What brand will it be, Casas Bahia or Ponto Frio?

**A - Flavio Dias Fonseca da Silva** {BIO 18281132 <GO>}

Well, as Peter has said we are going to expand both brands. Today we have extremely detailed studies which show us that both these brands are very strong and these brands complement one another. So what would be the role in our competitive scenario. We are going to expand both brands, both in -- we can still have an impact also expanding in shopping malls and the models of what we're going to do, start off very closely to the Casas Bahia brand and Ponto Frio.

**Operator**

Mr. Guilherme Assis from Brasil Plural has a question.

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

Thank you for taking my question. I would like to know more about this expansion plan. If you could give us more information, you talked about internal surveys which validate the numbers. Well how do you see the kind of store that you're going to open? Will it be different from the current model? Or for different public or regional opportunities that you could go after.

And so in sum, what is your plan for integration with online if there is any model which might bring an advantage. And in this plan, you -- how you will do this?

**A - Unidentified Speaker**

Thank you Guilherme for your question. First regarding the store expansion, all these stores will come about with a different concept from the concept of the stores that we have today. They are stores which size wise are smaller than the average that we have today. They will be according to the smart concept, just they will have more technology, they will be much more interacted to online.

But in the agreement that we are writing in terms of these new stores, we will also have, everything will be expanded to our current stores. So we will have a strong movement, of coming in with these new stores integrated with online, with more technology and with the reduced cost of infrastructure and physical space and occupation and high activity and less inventory.

So in the smart concept, we have three sizes of stores, 500 square meters, those between 500 and 700, and those stores up to 1,000 square meters. And we also identify which store what size we need. Besides these models, with these three sizes that I mentioned, we will be also inaugurating this year, the project is on track. Our first digital store for furniture it will be a laboratory, to produce a new [ph] technology.

And also besides this we will start testing this year some kiosk stores. So that we can occupy the space and mark our presence in some areas where we think there is an opportunity of having greater contact, small kiosks of 15, 14 square meters and which will make our presence more felt and test new entrances into smaller markets.

So the survey was exactly this and we presented this to the board. And hopefully, it will start at -- in the beginning of next year and we will have eight smart stores, one digital and the kiosks, we will start as well. So I'm very confident about this plan, we are much better prepared to understand the model of the store we need in the future and how will these stores be integrated with the multi-channel world.

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

Hi, Peter, just to make it clear, please. So within those 70, 80 stores for the next year that you have proposed to the Board that includes a smart store, kiosks, also and that includes some traditional stores, how is that -- what is the breakdown there?

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

Well, that's a good question. That's not included kiosks, that is in a different plan. It has one digital store and eventually during this year -- the next year we can have another one in another region.

As I said before, we could have two digital stores and the other stores, all of them, will be under the smart concept in all the channels. So I just would like to add to this, when you asked, if we need more logistics infrastructure for that, and the answer is no, because we have rolled out a lot of efficiency in the last few months. We have productivity that we were able to place in the DCs and also the improvement in the logistics network efficiency. We are ready to meet that volume for the new stores, with the efficiency, with the structure that we have today.

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

Thank you, Peter. Now, just one final question then. About the furniture category which was a highlight, as you mentioned and we see that really that is improving, you have new competitive advantage with Bartira and new lines as you said. So you have new products there. So can we separate the margin gain what was that contribution, because furniture has an interesting margin for you right.

So can we know what was the gross margin gain for furniture alone? Do you have any idea of that? Can you comment on it?

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

Guilherme, this is a piece [ph] of information that we have not published and neither talked about because that is really part of our category strategy. You know that the furniture share of Via Varejo sales that is very significant. We really had bad performance -- more worse performance than the competition because of that bad performance in the Furniture BU.

And as you know, this category is the one that suffers the most, when the crisis comes up. And also, this is the category that has a greater leverage potential when the crisis is over. So we understand that Furniture BU is extremely important and significant for Via Varejo. We took advantage of this crisis period of this difficulty to improve all our internal processes both for sales forces in our brick and mortar stores, as well as in the understanding.

And also going into the details of what we needed to be more competitive and to have a greater presence in the online world and also placing Bartira in a different production process, improving productivity, as well as cost. So I would say that we are very optimistic for about this new project.

We hope that the market shows improvement signs and really improves in the short term. And then we are sure that Via Varejo will be at a very special situation vis-a-vis our competition considering furniture is a category that has a greater share in the company.

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

Okay, that's great, thank you very much.

## **Operator**

We now end our Q&A session. I would like to turn the floor back to the company for their final remarks.

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

Well, I just would like to thank you all for participating on another conference call. I also would like to thank the team that is here with me, for all of their hard work, the commitment, with the results that we have been able to deliver. And also I should say that we are very confident. We know that we can continue delivering the results we are delivering, and especially preparing ourselves to continue having that force and that rolling out capacity that Via Varejo has. This is a competitive advantage in our industry. Thank you very much.

## **Operator**

The conference call for the results of Via Varejo is concluded. The IR Department is available to address any other questions you might have. Thank you very much for your participation and have a nice day.

FINAL

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

Bloomberg Transcript