Q3 2014 Earnings Call

Company Participants

- Christophe Hidalgo, CFO
- Daniela Sabbag, Director
- Libano Barroso, President
- Ronaldo Iabrudias, CEO
- Unidentified Speaker, Unknown

Other Participants

- Alan Cardoso, Analyst
- Andrea Teixeira, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant, Analyst
- Victor Falzoni, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And welcome to GPA conference call to discuss the company's results for the Third Quarter 2014. This event is also being broadcast via webcast, which can be accessed at www.gpair.com.br with a respective presentation.

The slide selection will be managed by you. There will be a replay facility for this call on the website. We inform you that the company's press release is also available at its IR website. This event is being recorded. And all participants will be in a listen-only mode during the company's presentation.

Afterwards, there will be a question-and-answer session when further instructions will be given. Should any participant need assistance during this call, please press star, zero to reach the operator. 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 assumptions of GPA management and on information currently available. They involve risks, 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 GPA and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'd like to turn the floor over to Ms. Daniela Sabbag, Investor Relations director of the company.

Daniela Sabbag {BIO 18861490 <GO>}

Good morning, everyone. Welcome to GPA's conference call for the results of the Third Quarter 2014. We'll have Ronaldo Iabrudias, CEO of GPA; Christophe Hidalgo, CFO; Libano Barroso (inaudible) CEO of Assai; and Fernando Sancoper [ph], CFO of Multi Varejo [ph]; in addition to other executives.

I would just like to remind you that due to the offer on Sinova [ph], we won't make comments about Sinova during this call. So now I give the call to Ronaldo for the opening remarks.

Ronaldo Iabrudias

Good morning, everyone. First of all, once again, I would like to thank you all for being with us. We thank our investors. And today we have Denis Dean [ph], thank you for having this ready for us. And formally, I would like to congratulate the team for the results achieved.

Today we'll be presenting the results of the Third Quarter. And every business unit will have the chance to set the tone and talk more about its business. However, before we'll give the specifically for each business unit and for Christophe, who will be talking about consolidated numbers, I would like to mention some highlights which I consider to be important.

Despite the current scenario, which is quite complex, to say the least. And very challenging, you will see that we have made improved profitability in several business at the company. And this applies both to this quarter, the current quarter. And also year to date. Obviously, for us, just as important as profitability are our sales. And this is where we also had in the vast majority of our business growth over inflation rates. And this somehow characterizes what GPA is all about.

We are multiformat operation. And in this context, it is important to underscore that some models evolve differently vis-a-vis other models, once again, repeating particularly right now during this economic moment. The driver of the company is our customer. And we've been following each business unit. Each business unit has followed us different profiles and different purchasing moment by customer. So when you buy close to your home, this happens more often with Minimercado Extra and Pao. I think you've been following our results. And you saw in the documents that we are heavily investing on organic growth.

As the supermarkets, we have Pau and Extra as options. And we also have suppliers supply with Assai, cash and carry. And Hipermercado. And Assai also works with different audience, different from our general audience. They deal with merchants and other business. And we also have specialties towards -- I think you had a chance to hear Libano. He posted results about Casas Bahia and Pontofrio.

And on the web, we have several solutions, too -- several brands that you know so well. And more recently, precisely last week, we launched the Cdiscount brand in Brazil. On top of that, we also have the mall format. In addition to increasing customer traffic and given an additional offer and purchase option to our customers, it's also another method found by GPO. And we'll keep on working in order to make the company's assets even more profitable.

I just wanted to make this introduction to let you know that we have a unique condition vis-a-vis the market. We are not restricted to a single format or a format that caters to a specific segment. In reality, we have six different possibilities and different channels and purchasing formats which brings uniqueness to the company.

In addition to our unique position, we also have a pretty well set and defined strategies by business. And to our business, I think you have the slides at hand. Considering our model and format, which was not so vigorously grown. But we've been structuring ourselves. And we've been working since mid-quarter with a plan which considers several actions in different fronts.

We have actions, plan to activate more stores. And also actions planned for assortment -- product assortment. Those of you who had a chance to visit our stores will see that we have a concept now which is (inaudible) for lower prices. And we also have another concept for prices that nobody has, no other competitor can offer under the same conditions. And we're working very strongly with suppliers to support us in this initiative to improve our sales.

When it comes to marketing, in Rio, we resumed much more strongly Hosatina [ph] and we also renewed what we had before, which was Alefta Sinelio [ph] and Daytona [ph]. These are different sale and different promotions over the weekend.

So as a background and as a critical and major strategy at the company, we have the relentless surge for competition. Competitiveness is something that has come to stay for this banner in which we had lower growth [ph]. We are specifically engaged. And we also believe that at the end of the day we'll resume our performance and keep on having the growth rates that we had in different formats.

Another characteristic of the company that we heavily focus on is to make the company more agile and also with more muscularity. In other words, we want to offer adequate costs at a company in order to invest and become more competitive. Within this rational competitive prices according to each business model. And according to our store locations, we focus on competitiveness. But this is not something pasteurized. It depends on the model and also on the location, the store location.

And on top of competitiveness, by the way, that's strong efforts that are being reinforced at the company. We also have commitment in terms of top quality products and services. And above all, for specific brands, we want to offer the best purchasing condition to our customers.

In our last call, we mentioned this is another ongoing process at the company. We keep on trying to improve our operating efficiency. We believe this ongoing search for operating efficiency is something that will really assure ourselves so we can remain having competitive prices and assure the company's profitability, which is about what we'll be presenting next.

I would also like to highlight our focus on CAPEX optimization. We mentioned that in the beginning of the year, in the middle of the year, CAPEX and working capital are topics that are top priority for us, just as we also prioritize other companies' drivers. But these are significant drivers.

By the way, our strong goal today is to improve greatly our selling area. But at the end of the talk of the call, I will stress this in more detail. But it's precisely by focusing on these drivers will keep on growing, consolidating our footprint. And growing in areas where we have opportunity for growth and also trying to bring the highest returns for the company.

So just to conclude, I would just like to say that despite the complex year, we're about to complete 10 months. We're about to close the Third Quarter. So we keep on making short-, mid; and long-term decisions by business. And at the end of the day, we want to improve our operation and keep on investing as we planned in order to consolidate our leading position in the market in all banners.

I'll conclude by saying that it's difficult in this scenario to winning bullish [ph]. But we're very confident, confident based on the plans we have down the road, also the plans we've already implemented. And I'll come back for the closing remarks. But now I give the floor to Christophe, who will give you more detail now on the Third Quarter and also year-to-date numbers. Thank you.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you, Ronaldo. Good morning, everyone, ladies and gentlemen. Let us get started giving the highlights of our earnings on slide number one. Here we highlight the major behaviors of the quarter. Here we can see net revenues reaching BRL15.7 billion this quarter, in other words, 10.9% increase year on year.

Year-to-date, sales total almost BRL45.9 billion, or 12.1% above the previous year. This growth in the Third Quarter takes into account the effect of the first consolidation of Sinova, starting August 1st. Net of this effect, if exclude the effect, growth is 5.6, 3% in same-store sales basis.

On the Third Quarter, adjusted EBITDA was 7.6% of net revenues, in other words, growing 12.7%, an improvement of 10 basis points margin-wise. We highlight that EBITDA in the

Third Quarter is higher compared to our EBITDA in the First Quarter of the year or in the first half of the year. We also highlight that behind this number, each business area has a positive contribution to the positive performance of the EBITDA margin. So every business increases the EBITDA margin.

What about the income margin? It was 2.5% of revenue. Adjusted net income was BRL396 million, or 7.6% above the previous year. Year to date, EBITDA shows good performance, 18.6% growth, margin growing from 50 basis points to 7.6% sales. Net income increased 19.2% year to date.

Let's move now to slide number two. There is no surprise that our expansion pace remains one of the top priorities at GPA. We close Third Quarter opening 50 new stores. Just as in the first period of the year, we focused the higher return formats, like convenience store and Assai. In reality, this quarter we opened 33 proximity stores, two Assai stores. And we closed the quarter with 1,051 stores at 1,715,000 square meters of selling area.

In Q3, we also opened 15 non-food units at (inaudible) 11 Casas Bahia. And four Pontofrio stores. And at the end of the quarter, we totaled 986 stores and 1,077,000 square meters. Our commitment with organic expansion remains very strong. For the last 12 months, we opened 146 additional stores.

Now let's move on to slide number three. And here we show our indebtedness numbers. Despite the accelerated organic growth behind expansion that we've just seen, the group continues to deleverage very significantly through higher cash generation and also stronger discipline in working capital management. The debt this period moves from BRL4.6 billion to BRL2.96 billion, accounting for a deleverage of 1.22 times the EBITDA, down to 0.64 times EBITDA. We also highlight that the net financial result, which accounts for 2.4% of sales, grew 21% year on year, therefore, showing higher efficiency in our fund management since the same period showed CGI [ph] at a 29% increase.

Now slide number four. Here we also show improved working capital, BRL1.4 billion as funds over the quarter compared to the same period of the previous year. This is almost 12 days of improved cash cycle, mainly captured in the optimization and implementation in Via Varejo and Nova. And also the effect of the first consolidation of Cdiscount and also contributes to the leader, this leading position of 12 cycle days.

On slide number five, we see the main numbers of the food business, including Multivarejo, Assai and malls, the consolidated sales above BRL2.2 billion, 6.2% growth. Year to date, BRL24.9 billion, a 10.6% growth.

Profitability of the adjusted EBITDA, 608 thousand, or million, 7.7% increase showing the strength of the multi format model that Ronald mentioned in this challenging context, profitability was not only maintained. But improved year on year. Adjusted income in the period is BRL189 million, stable compared to the previous year, maintaining the adjusted net margin at 2.3%.

I'll give the floor to (inaudible) who will make his remarks about the performance of Multivarejo.

Unidentified Speaker

Good morning. Thank you, Christophe. Multivarejo, even with this challenging scenario of the recent periods (inaudible) and proximity formats had the best performance of the quarter, with growths above the inflation rate. The expansion strategy remains a slant [ph]. Reopened 33 stores and the opportunity format. A total of 59 new stores in 2014. We maintained strategy of competitiveness with the objection to gain market share, supported by expense control.

G&A increased 5.5%, which is below the inflation for the period. EBITDA is up BRL522 billion [ph]. And that margin of 8.5%, 0.5%. Adjusted EBITDA was BRL1.6 billion [ph] with a margin of 8.4%, 3.3 points, an increase of 2.2%. I'll give the floor to (inaudible) to talk about Assai.

Good morning. Good morning. Excuse me and good morning to you all. Third quarter we had a quarter that was in line, very strong with Assai. Sales increasing 31%. Assai gets BRL2.2 billion and revenues this quarter, an increase of BRL500 million compared to the same quarter of last year, which brings a constant performance year to date, 35.5, or an increase of BRL1.6 billion growth sales compared to the same period in 2013. This performance is a result of an aggressive expansion plan and the constant evolution and performance in the same-store basis.

The economic market is very favorable to the wholesale model, to Assai's model. Assai has been leading the growth of the segment. We're increasing more than -- on twofold, the EBITDA factor, which generates an increase of Assai's share of the business of GPA of more than 2% in this quarter, reinforcing what Ronald and Christophe said the GPA strategy, with multi-channel, multi-format. And ready to operate in different economic scenarios. And our models are able to perform.

As Christophe said, expansion is our main focus. Since January 2013, to date we expanded with organic growth and store constructions over 100,000 square meters and there's no model of stores. The format of the stores has been above expected, which allowed us to maintain high rates of growth and the same levels of results, which is not usual in the organic expansion process, since expansion also brings free operating expenses, maturity periods. And the investments and growth in margin.

The results of the new stores and the efforts -- really, efforts that we make in the expenses issue, considering the model of Assai have allowed us to maintain expenses in the same level of last year, 10.6, products increased 32% and the EBITDA, therefore, grows about 35.4% in the Third Quarter in line with the performance of the nine months of 2014.

Expenses are maintained in the 10.5 level and EBITDA evolves 40% year to date. We remain very strong with investments and expansion -- Assai's expansion will remain accelerated towards the end of the year, beginning of 2015. Of course, the greater investment in expansion have generated financial costs that was an increase of BRL8 million compared to the same quarter of last year. And this is mostly about the increase of investment -- the investments that we make before opening stores. The Assai business model doesn't have longer term for sales for financial expenses impact, cash flow generation. And expansion.

For the next quarter and 2015, we have a very positive perspective for this model. Expansion is our main focus. The main driver for Assai, for our team, right now, we have nine stores under construction from the very beginning of works to pre-opening. In constructed area, this means more than 100,000 square meters or 40,000 to 45,000 square meters of sales areas. These stores under construction will be opened at the end of the year and early 2015. These are the main numbers that we have for Assai.

I give the floor to Libano from Via Varejo.

Libano Barroso {BIO 4670536 <GO>}

Thank you, (inaudible) good morning. This Third Quarter of 2014, Via Varejo presented mat [ph] revenues at the end of the Third Quarter of BRL5.3 billion, an increase of 0.7% -- I'm sorry, 0.4% year on year. This quarter doesn't have any typical seasonality for the purchase of durable goods. The first and Third Quarters is when we tried to balance the profitability of sales volume and more promotional quarters are the second and fourth. Next quarter is the main quarter for our retail, with two very important promotional dates, in Black Friday and Christmas.

We met growth margin with an increase of 1.5 or 150 BPS on the growth margin, seasoned mostly by operating efficiency gains, efficiency and logistics and assemblies, synergies with other businesses in the group. And additional services. And a better category mix.

We have a discipline and expenses program. We will continue working with this program, both in operating activities, store efficiency, delivery logistics. And administration, turning additional gains in competitiveness and price. Profitability levels, both in terms of EBITDA and net income, are record for our history. These numbers were also very important. We are pleased with these levels. And from now on, all the gains -- and we still have a lot to gain in operating and administrative operations -- will be reverted to competitiveness seeking to increase sales.

I'll give the floor back to Daniela Sabbag.

Daniela Sabbag {BIO 18861490 <GO>}

Let's move on to Q&A, then.

Questions And Answers

Operator

We now open the question-and-answer sessions. We kindly ask you to make all questions at once and wait for the company's answer. (Operator Instructions) Ms. Irma Sgarz from Goldman Sachs would like to ask a question.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. I have two questions. First, the format of Extra Supermercado had a decrease in sale per square meter, 3% year on year. Can you talk about the drivers behind this decrease and explain whether it was a decrease in movements in the stores or the ticket? Or if there's a decrease in visits to other formats, for example, Assai or discount stores?

And my second question, looking forward. And considering what you've been doing with Bominuto [ph], to have the plans of bringing other Casino [ph] formats to Brazil, leveraging the brand's portfolio around the world, for example, discount stores, Cdiscount stores, maybe in a franchise format? Thank you.

A - Unidentified Speaker

Your first question about the Extra format, Extra is a different story. We made conversions. The Super format, we believe that the customers' behavior for some time. And it has been reinforced in the quarter, that there's a smaller flow that we used to have previously. But what we noticed during the month of October is that there's a trend. Those are the works that we've been implementing and I mentioned in the opening remarks, marketing with Daytona [ph] or with Rovagenia [ph] store activation, the -- these concepts. We can't really say it's a trend. But we've been noticing that there seems to be a trend of reverting these loss of customer flow.

Another point that you mentioned, we make decisions about the different trends. Of course, Casino has a very strong role with a number of planners of products that they have in different formats. So it's always an inspiration for us. But we usually make this type of decision based mostly on customer demand.

So this change of Minuto Pao for being a proximity model, the idea of having a small Pao with quality service, a different variety, meeting convenience. But also a need -- a broader need from our customer came as a result of the customer's demands. And the response is that we are paying a lot of attention to this point. And as we feel that there is room for new formats of new banners, we will start to consider them.

Q - Irma Sgarz {BIO 15190838 <GO>}

But for now, you don't see clear gaps to maybe bring new formats in 2015 already?

A - Unidentified Speaker

We are looking even at franchises. We're considering analyzing the possibility of having the model that they have in Colombia called Aleados [ph]. We are right now assessing.

This is not part of our plan. We are working on the plan. But this is an initiative that the company's making to have the opportunity or possibility of easing -- having franchises or allies, or Aleados, as they call in Colombia, we have had an aggressive growth in the strategy. And this type of partnership would make sense, because it requires a smaller -- or lower investment volume.

Q - Irma Sgarz {BIO 15190838 <GO>}

Excellent. Thank you.

Operator

Tobias Stingelin from Credit Suisse has a question.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Just to clarify Irma's question, I think your answer, Ronaldo, you mentioned Extra Super. Or were you talking more specifically about Hiper? I thought it was more related to Hiper. At the same time, we'd like to understand if Extra Super is performing? Because I have the feeling Extra Super is not necessarily doing so well. And that's the problem of conversion.

Now, my second question -- I was surprised with the magnitude of gross margin expansion in Multivarejo. I know it has to do with leads and stores. But if you think about the last 12 months' discourse, there is quite a change.

Based on what you said, you're not considering market share in other manners, just in Hiper. So I'd like to have a better understanding how we might look at this thing about gross margin and other opportunities or margin versus market share in the future.

And the last question. How about a disclosure of Cdiscount and Cnova in the future? Are you going to include in a release as specific segment, just to mention this business. So we can reconcile everything? Thank you very much.

A - Unidentified Speaker

Tobias, thank you for your question. Coming back to Extra and Super, Super is slightly different. We worked on conversions. You would see we have five conversions. And we transformed Super into Pao [ph]. And we still have four underway. So nine of 200.

And it does have an impact on Super's numbers. Hiper, well, when I answered Irma's question, I mixed things up. But Hiper is where effectively we have specific plans that we developed over August and also in September related to store operation with a more proper planning for activation or defining and setting new concepts [ph], like I said before (inaudible) so enforcement in marketing to, with (inaudible) and (inaudible) throughout the country. But always having as a background our concern to remain competitive and to focus on price. And we believe that with all these measures -- by the way, this quarter our results -- compared to other quarters, our result was lower in EBIT.

But if you compare year-to-date figures, if you look at Abras's [ph] numbers, for instance, Abras disclosed growth for non-foods [ph] of 8.15. Our growth was 10.6. So the company has a strategy or a business format which allows the company to look very specifically at a quarter. But maybe that's not the best way. But still it allows us -- sometimes you lose a little bit here. But we win a little bit more there -- but the trend at the end of the day is quite positive.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Great, thank you. Second question is about gross margin, the evolution -- well, I'm not saying about a different discourse. But we spent quite a long time seeing the margin reduction, trend. And now we have a slightly different trend, very much concentrated on the Hiper problem. But I'd like to understand why -- how we should work on it in the future.

Net of leads and net of store miss [ph], what about the progress and behavior of the gross margin? And any impact on sales? Any impact on sales?

A - Unidentified Speaker

Tobias (inaudible) speaking. This margin that you're looking at, like you said, there is an impact of higher mall revenues, which had a significant impact in this increasing margin. And we also have a mix of stores, an increase of Tonyasuka stake [ph] and also proximity models that also increase the margin.

In addition to several actions we've been making of strategies (inaudible) like Ronaldo said, they brought more margin. But that's not in price. But nothing that effects our competitiveness. Our trend for the future is to maintain the same levels that we had in the past without having an increase in prices.

Just highlighting what (inaudible) said, I think it's important to check gross margin at Multivarejo, considering the first nine months. Our margin is flat. One quarter might -- well, we might consider different calendar effects. But this is flat. And it doesn't mean that there is no effort in competition or competitiveness. But in multi-format strength is precisely to allow other formats to recover the margin and also maintain stable gross income.

Now, answering the third question, Tobias, like Daniela mentioned, we cannot tell you -- we cannot disclose anything until the silent period is over. Obviously, this segment will be posted as separate segment that up to now we cannot disclose any further.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you. So just going back to the gross margin, Christophe, you mentioned nine months. What about the future? How should we look at it? So next of the mall effect and particularly -- even though the mix has changed, I think it's very hard to have such a strong impact of mix, because hipermercado is still half a weight [ph] in the business. So except for malls and just considering a macro view, for the future, should we consider the gross margin keep on expanding? Because the majority -- well, this has an impact on the quarter margin. So for Multivarejo, how should we look at it? Thank you, again.

FINAL

Bloomberg Transcript

A - Unidentified Speaker

Tobias, it's important to say that our strategy of multi-format does make the reading more complicated, your consolidator reading. Expectations for margins are mainly guided by the policy of competitiveness. Day after day, we heavily invest in competitiveness, which doesn't mean that the whole margin or the overall margin will go down. In other words, it's reasonable to assume that we will maintain the level of gross margin. Should the mix effect brings it a little bit downwards, we know that the efforts of efficiency in expense management will allow us to maintain our plans that we presented early in the year with 8% or 8.1% the EBITDA margin over 2014.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Great. Thank you, again.

Operator

Victor Falzoni from Brazil Plural has a question.

Q - Victor Falzoni {BIO 18269335 <GO>}

Good morning. Thank you for taking my question. I have two questions. First question, can we have more visibility vis-a-vis these actions that you comment upon? What about same-store sales? And what about the company's efforts in terms of inflation rates or the positive aspects?

The second question is more related to the balance sheet. Expenses related to commercial agreements increased a lot this quarter. Anything changed in the commercial policy? Because in the food segment balance sheet, the numbers remain according to the average. Thank you.

A - Ronaldo Iabrudias

Victor, Ronaldo speaking. In Hiper, like I said before, since August, we've been having (inaudible) plan with specific actions related to the operation and also to the commercial area with our suppliers and also considering new concepts that we've been developing and implementing in each one of our stores.

In addition, we also have tests that we are running in the textile area or in foods or in FLV or even the concept of having products with different prices when you have higher volumes. So there is a whole effort in order to work on store activation. And this is already planned and we've been following on. And like I said before, we are just beginning to see a positive reaction.

And on top of that, we also have areas from the support areas like logistics and particularly marketing. In order to support with new initiatives -- and I gave the example of Hosadina [ph] and Distona [ph]. In other words, we are working more on marketing this time with a higher amount of products under promotion. And they are just beginning to give us better results. And we feel more optimistic as to the future.

As you know, this market is a little bit more complex. So these initiatives -- well, we don't feel comfortable. But I think we are addressing well the topic about Hiper. As to Super, I think I answered that before. I mentioned that positioning and Christophe is also going to mention commercial agreements.

A - Christophe Hidalgo {BIO 17982648 <GO>}

Good morning, Victor. You're right. Revenues and commercial agreements in the balance sheet increased at approximately 145 million, if I'm not mistaken. And this increase exclusively relates to perimeter variation.

In other words, the effect of the first consolidation of Sinova, Okay. In other words, there is no exchange rate or no change, I mean, in terms of operating and charging.

Q - Victor Falzoni {BIO 18269335 <GO>}

Okay, thank you.

Operator

Andrea Teixeira from JPMorgan would like to ask a question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Good morning. Thank you for this opportunity. I'd like to hear more -- and I thank (inaudible) for his presentation, he talked about the increase of financial expenses at Assai, as well. But there was an increase -- if you look to the food segment, there was an increase on interest expense that was considerable. I'd like to know if it was the average of (inaudible) at the time. I'd like to understand more about what can -- what can happen from now on, this focus that the company has in the improvement of working capital, if you can talk about what can improve from now on in the financial area, as well. Most analysts have been more asking about Extra, how to improve the flow.

A - Unidentified Speaker

Hello, this is Domuro [ph]. Thank you for your question. Going back in the case of Assai, these expenses come from expansion mostly. We've invested heavily if you look at the average of investment per store is BRL25 million per store. Large store is more than 12,000, 13,000 square meters of constructed area. Of course, the investments don't perceive the opening of the store and preoperating costs, we've been working on strong improvements.

To have an improvement of gross income and to have an improvement in working capital -- and there has been an improvement in Assai -- this ration goes down in the first moment. And as the stores open and start to produce, you bring this back to balance.

And I believe Christophe will talk more about food segment as a whole.

A - Christophe Hidalgo {BIO 17982648 <GO>}

Thank you, (inaudible) good morning, Andrea. Thank you for your question. Regarding this variation of financial expenses and the net financial results, I think is the best approach. We've noticed that the Multivarejo segment has had performance of around 24%. This increase is significantly smaller than the variation of the reference rate that for the same period evolved around 30% and the situation offers smaller growth compared to base rates, translate the continued effort made on working capital and the administration of resources in general.

The view of a significant increase of Assai also has to be put into perspective, considering to the values engaged. I mean, the financial results of Assai will triple slightly above double. But this fact shouldn't be considered in percentage. But in value. And put into perspective with a high level of CAPEX that Assai will have in the year 2014.

I don't know if I completely answered. I'm going over your question, Andrea. What we can expect from now on, I think it is reasonable to maintain the expectations that we delivered in the beginning of the year. So net financial results at around 2.2%, 2.3% of sales.

Operator

Gustavo Oliveira from UBS would like to ask a question.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning. Thank you for this call. I had a few questions. First, for Assai, you wrote in the release that the increase may be accelerated for next year. And it will be concentrated in the northeast region. Can you say how many stores you're planning to open and why this concentration in the northeast? Do you think that the penetration in the southeast, center-west of the country is already high, or is more an opportunistic decision?

A - Unidentified Speaker

Hello, Gustavo. This is (inaudible) thank you for your question. Assai, if you follow from 2012 to date, it's been focusing on geographic expansion. We started operating in the four states in 2012. And today are present in 13 states. This search for greater popularity in the national territory is related to our business model, where we sell mostly to small businesses. And for our suppliers, it is important that Assai has greater popularity and greater presence around the country so that they can increase the level of distribution, since we consider ourselves complementary distributor for our providers.

There is a higher -- a highlight of the northeast. We still reinforce the southeast region. But the presence of the number of stores, northeast presents greater opportunities for implementation. We opened this month into Nabuku [ph] the first unit of this model in the greater Recife area. And that's our 14th store.

When you compare the number of Assai stores in the southeast and northeast, center-west and north regions, this means we have a lot of opportunity to expand and grow in the northeast. Out of these new units, the majority, of course, I don't want to disclose the numbers for the region. But the majority will be in the northeast. This cash and carry model is very well accepted in all regions of Brazil. But nothing had another issue that we're able to work in distant areas as a complementary supplier. And this will bring the details and the holiday season and beginning of 2015. I hope I was clear.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Yes. Thank you (inaudible) my second question goes back to the gross margin in the promotional actions and activation that you're working on Extra. To improve -- to gain back the growth of top line, would it be important to change this gross margin that you've constructed in the Third Quarter to activate sales? Or do you think you can run the promotions and maintain the gross margin from now on?

A - Unidentified Speaker

Gustavo, a company has a number of drivers. You understand what I'm talking about. For us, competitiveness is essential. We continue to focus very strongly on being highly competitive. That means, of course, that it's not pasteurized competitiveness. It is competitiveness that takes into account who our competitor is, what region we are in, what type of store, et cetera.

So this is a crucial point. We believe that the actions that we are taking or implementing internally will allow us to somehow work in order to maintain the level of competitiveness and, of course, we always have the supplier driver to help us hold the competitiveness or ensure competitiveness or ensure competitiveness. We are optimistic that we will go back to growing always seeking to preserve the margins.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay, a final question. Still on the outlook, Abra [ph]. So you talked about the results in the quarter, the comparison that you had. They released an expectation of growth accelerated for the Fourth Quarter, especially for the holiday season. Is this something you agree with? Or how do you see this scenario from now on for your operations?

A - Unidentified Speaker

We're preparing strongly for the end of the year. You know very well that on retail the Third Quarter represents much more than three times that. So Extra, for instance, starts today. It's both a celebration. But (inaudible) is working heavyweight program in this sense. And Libano and the entire company have forecast for Black Friday. And we're preparing ourselves with our suppliers, the logistics departments. And store operations for the month of December.

The company does believe that there will be a busy end of year that will be a very good holiday season. And we're preparing for that, because if we're not prepared for something very good, even if it good, we won't be ready for it. So we're taking the measures for the next two months, including October is almost over. But a very positive period.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

All right, I'm sorry. I have another question. You also mentioned and highlighted in the release that you've reached the own [ph] brands reached 10% contribution in the Multivarejo business. But you didn't talk about the own brand being a driver of gross margin, maybe not in this quarter.

Is it being an opportunity to improve margin? And how do you see the evolution of the own brand in these different models for the upcoming years?

A - Unidentified Speaker

In Brazil still, with their own brand of private label, in order to develop the customer loyalty -- for example, if you take Minuto and Extra, which are the proximity models, we believe that this percentage that we have is still very small. We want to increase -- of course, we're always concerned with margin. But we want to increase the private label, not because it brings a greater margin, because in Brazil, you have to spend a little more to bring your own product to private label, because it's seen -- private labels are seen as not as good as a domestic brand.

Our focus is to develop high-quality products, to develop the customer loyalty, even if that product today doesn't have such a higher margin as normally we have for private labels. In our minds, we will grow private label very much in Pao, at Mini [ph], which are the two formats that we'll have more options of private label. But we will continue to grow on Super and Extra, as well.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

That was clear. Thank you.

Operator

Alan Cardoso from Safra Bank has the next question.

Q - Alan Cardoso {BIO 15933677 <GO>}

Good afternoon, everyone. I have actually two questions. The first question was already asked and elaborated on. But let me go back, about the financial result for foods. Year on year, I know that financial expenses were lower (inaudible) but vis-a-vis the Second Quarter, I mean, we already had (inaudible) and your financial result or net financial expense increased almost 8%.

So I'd like to better understand the reasons why you had a slowdown in sales in Multivarejo. My perception is that it did not only happen to you. By the way, I was even talking to another player in the sector, an unlisted company. And they also saw the sales slowdown in the Third Quarter, in his case, particularly September was their report. So we have the feeling October will be slightly better. So why? Why did you have Multivarejo month on month? And I want to know if the curve at the end of the month was just as it happened with its other player? And what are the changes on the road until October gets better?

A - Unidentified Speaker

Thank you, Alan. The financial results in the Third Quarter increases approximately 20% vis-a-vis the previous year. Obviously, this comparison is affected by seasonality, both a behavior and the need to fund working capital. And this is not equivalent in both quarters we compare.

Now, the second topic, the Second Quarter of the year which you mentioned, during this quarter, we managed to capture more opportunities to optimize our financial results. I particularly refer to postpone then, to discount from receivables. And more specifically, discount from suppliers or providers in general, pay discount. So this comparison in the Second Quarter or in the Third Quarter the growth level of our P&L on a net basis has been lower, showing more performance than the evolution of the silik rate [ph]. And in this sense, we'll keep on managing our funds in the period we address or we can close 2014.

What you said, Alan, what let to this slowdown, we cannot consider something just on a non-recurring basis when you consider one quarter or one or two months. When we look at our other formats, we grew above the inflation rate. So it's too early to try to understand what really happened with one specific banner. But we're trying everything we can to try and mitigate the problem. Like I said before, we feel October has a good trend.

I think it's something non-recurrent, just something that happened in one quarter.

Q - Alan Cardoso {BIO 15933677 <GO>}

Okay, thank you for your answers.

Operator

(Operator Instructions) Marcelo Lima from Elhos [ph] has a question.

Q - Unidentified Participant

Good morning. Marcelo Lima from (inaudible) thank you for taking my question. I would like to have a better understanding of the economics of Assai [ph]. For instance, we spent BRL25 million to open a store. How about return on capital and also the timing required for return on capital? What is the internal rate of return of the investment? How should we consider this vis-a-vis store openings?

My second question is about franchises. I'd like to understand how the initiative will be implemented and also about the contract model with the franchisees. And how about the return on investment in franchises, too? Thank you.

A - Unidentified Speaker

(inaudible) thank you for your question. I answered a previous question and I said our expansion plan -- well, Assai has capitalarity [ph] in expenses several reasons. Economics, in terms of maturity, performance and expansion plan in each one of these levels -- well, it depends on the region. Assai is very strong in Sao Paulo and Rio. So obviously, maturity time for the investment in (inaudible) it's faster due to the knowledge of the brand and also previous relation with the suppliers and lower level of expenses during the opening process.

In new state, obviously, in terms of return, this is slightly above average. That's the expectation. But return and maturity is very fast. Although it is big investments, it is on some occasions the business model does not use so much equipment. So our depreciation ramp is not so effective compared to more conventional business.

So what can we say about return on capital? Obviously, this is high return. That's why we have so much investment. Assai in the business has a ROI expected rate over 20%. When we come to the maturity time. Obviously, the maturity time are also related to the penetration strategy by city. I hope I answered your question.

Q - Unidentified Participant

Great, thank you.

A - Unidentified Speaker

Marcelo, just to answer the question about franchise, some of you asked about the possibility of having other brands. And I made a comment about franchise. And we are effectively assessing this. But we're just in the preliminary phase. I told you that we are designing a business plan for 2015 up to 2017, which does not consider franchise. So your question about what about the contract, relations with franchisees, we're still working on it.

Obviously, we do have some parameters. In the group, we have Casino. And in Colombia, we have players, people who do this kind of thing. And we have people in house who were already in vote [ph] before. We haven't come to a decision yet. And as soon as we come to anything more concrete, we'll be disclosing it to you.

Q - Unidentified Participant

Okay, thank you very much.

Operator

The Q&A session is now closed. I would like to turn the conference back to the company for the final remarks.

A - Ronaldo Iabrudias

Well once again, thank you. Thank you, all. I will pick up from where I stopped on Marcelo's question, talking about our strategic plan. We are advanced in the plan for all the formats, each one of the formats. Normally we make plans for three years. So '15, '16 and '17. Of course, the greater focus is in the subsequent year, which will be 2015.

Despite the scenario not being so optimistic, all the work that has been done in the company, the financial discipline, the great focus, the working capital, the strong work in the reduction of investment volume per square meter, we're proposing and we're far along this process that in 2015, in terms of investment, it'd be close to what we're talking about this year, maybe slightly more. But with the volume of store openings in all banners, Via Varejo included, Assai, Pao, Super, Minimercado [ph], with a strong emphasis. And a very determinant way. And (inaudible) taking up space that we don't hold today and consolidating the space we already hold. So we have an important revenue in the southeast region. We're doing strong work to grow in the other regions of the country.

Going back to the quarter. And I think it's very important to us, in addition to what we talked about with you, I think I also mentioned in one of the answers, we are all -- each one of the banners, each one of the stores, the regions, we are all preparing for this period of the year. This is crucial for us. So each one has already planned what to do for Black Friday and what to do for the end-of-year holidays and there's the [ph] the anniversary of Extra and a special date and celebration date at Assai, as well. So these are very important moments for us.

In conclusion, I would like to say, again, even considering the scenario, our team has known how to use different drivers to assure profitability and growth of the company. We've seen that a business such as ours, which is multiple formats, it is not always that we are able to grow at the same pace.

And our challenge is to create the mechanisms and the plans to maintain the possibility that we have and the growth of the company. I'm very confident that with our team and our plans and the volume of investments, that we will still make this year and that we're projecting for next year, we'll have GPA at an even more competitive position.

That's what I had to say. Thank you, once again to everyone who participated, especially Dani [ph] and the team who organized this conference call for us. Good afternoon.

Operator

This conference call on GPA's results is closed. The investor relations team is available to answer any other questions you may have. Thank you, all for participating on this call. And have a nice day.