# Q3 2019 Earnings Call

## Company Participants

- EugÃªnio De Zagottis, Corporate Planning & IR Officer and Member of Executive Board
- MarcÃlio D'Amigo Pousada, CEO & Member of Board Executive Director

## Other Participants

- Joseph Giordano, Senior LatAm Healthcare Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen. At this time, we would like to inform -- we would like to welcome everyone to RD People, Health and Well-being conference call to discuss the Third Quarter 2019 results. The audio for this conference is being webcast simultaneously through the Internet on the website, www.rd.com.br/ir. In that address, you can also find a slide show presentation available for download. (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 assumptions of RD management and on information currently available to the company. Forward-looking statements are not guarantees of performance. 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 the 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. MarcÃlio Pousada, CEO; Mr. EugÃªnio De Zagottis, Investor Relations and Corporate Planning Vice President; and Gabriel Rosenberg, IR and Corporate Planning Director.

Now I will turn the floor over to Mr. MarcÃlio Pousada. Sir, you begin your conference

### MarcÃlio D'Amigo Pousada

Okay. Thank you, everyone. Good morning, everyone. Welcome to RaiaDrogasil's Third Quarter 2019 Results Presentation.

As usual, EugÃªnio will talk -- present about the slides, results; and before the Q&A, I will stress some points about this quarter, okay? EugÃªnio, please.

## EugÃªnio De Zagottis

Hello, everybody. Thank you, all for attending our Third Quarter conference call.

This was a very good quarter for the company, a quarter with very significant revenue growth, driven by mature stores, significantly ahead of inflation.

We're also able to have margin stability but with a very significant EBITDA growth in absolute terms.

So we ended the quarter with 1,995 stores. We opened, in the quarter, 52 organic stores. We added 42 stores acquired from Onofre. And finally, we closed 16 stores, 13 permanent and 3 on promissory basis. We -- our market share increased by 1.7percentage point on a national basis, with 2.5percentage point gain in SÃ£o Paulo, which is very substantial.

Our gross revenues reached BRL 4.8 billion, a total growth of 21% with 7.7% for mature stores, which is significantly ahead of inflation. We had a gross margin pressure of 60 bps, which was due to the price investments we pursued last year. We'll talk more about that with the presentation. And we reached an EBITDA of BRL 359.4 million, an absolute increase of 21.7% and a margin of 7.5%. Our net income totaled BRL 152.5 million, an increase of 16.3% and a net margin of 3.2%.

All over the presentation, we'll be talking about the previous accounting standard, which is the one, we believe, best reflects the economics of the business. We're not -- the IFRS numbers are here. But we are not stressing them because we don't look at them internally.

Finally, cash flow. We generated BRL 121 million free cash flow and BRL 114 million total cash flow in the quarter.

On Page 4, here is talking about where we are as far as our Onofre's integration and how does Onofre figure into this report in terms of numbers. So as you know, the transaction closed on July 1. On August 1, we had the general assembly which approved the legal incorporation for Onofre into RaiaDrogasil. That incorporation happened the very same day. And also on the very same day, we unplugged 42 surviving Onofre stores. We had already closed 8 from the Onofre platform and plugged it into the RD platform.

So from one day to the other, those stores start to be operating by us, by our distribution center supported by corporate structure, automatically integrating into accounting, et cetera, et cetera, et cetera.

So this happened in August 1. The e-commerce operation was only integrated in October. And as we speak, the corporate side and the distribution center are in the process of being shut down. And this should happen by the end of this year. So given this reality, we are considering within our operating numbers, only the parts of the Onofre business which has been integrated.

So this means that store numbers for August and September, they are fully part of our 4 numbers. But the stores -- the store numbers for July as well as e-commerce numbers for the whole quarter and corporate and distribution center figures, which are being discontinued, these are all being adjusted. So we can be -- we can see here on the left under IAS-17, what exactly happened. So because we are taking out one month of store sales and three months of e-commerce sales, we are even adjusting revenues here.

So the total impact on an operating basis is BRL 10 million. This means that Onofre stores in July, plus e-commerce for the full quarter, plus distribution center and corporate generated a negative EBITDA of BRL 10 million, which are adjusting. In terms of net income this means BRL 8.9 million negative that we're also adjusting. The main impact is below the line. So Onofre has generated a nonrecurring gain of BRL 273 million before taxes, which we are also excluding.

So this BRL 273 million, it consists of a negative goodwill gain because we paid 0 for a company with a significant book value. So this is a gain, a taxable gain that is booked here. And there's also deferred taxes that we have booked of BRL 157 million. So all of this has been a -- so in the end, we are taking out BRL 328 million of net income out of our numbers. So that the final net income is BRL 146 million, 3.1%.

In the next quarter, what will happen is that we'll be -- we'll still be adjusting corporate overhead and distribution centers. They'll be in the final stage of shutting down. But e-commerce will be a full part of our numbers already for the Fourth Quarter.

Page 5. Let's talk about our expansion. So we ended the quarter with 1,995 stores. Exactly yesterday, we opened the number 2,000th stores in the Morumbi shopping mall -- sorry, in the Iguatemi -- Shopping Iguatemi mall in SÃ£o Paulo. So we had a celebration. MarcÃ-lio will talk more about that. But we opened in the quarter, as I told you before, 62 organic stores. We had 42 acquired Onofre stores. And we had 16 closures. Out of the 16 closures, 3 were temporary for rebranding, 13 are permanent. And out of this 13, 10 are mature stores, which have been relocated. There's generally a positive IIR expectation associated to that. And today, we're maturing stores that were closed and it reflects expansion mistakes that are normal in such a large program like ours.

Finally, stores under maturation, including the 42 Onofre stores, they account for 34.9% of our total store base. So we're treating Onofre stores as new stores. But next year, when they complete one year, we'll treat them as mature stores. So it's kind of a hybrid treatment here. But for this year's purpose, it's a new store.

On Page 6, we can talk about -- more about what's happening in the market. We see that we are rebuilding a very significant growth gap versus the other chains, versus the rest of

Abrafarma. So we grew retail revenues by 20.7%, while the rest of the chains of Abrafarma, they grew only 8.1% in the quarter. So we're basically rebuilding the gap we had in '16 and '17. We're seeing a very favorable market dynamics. As you can see in the bottom, we maintained our normal growth pace. We're doing 240 stores this year. We have already guided 240 stores for next year as well. But we see that, out of the huge store opening peak we had seen last two years, now what's happening is that we see a huge reversal.

So companies -- most of our competitors they have stopped growing. And they're closing a significant number of stores. They're even leaving markets. So we're seeing competitors shutting stores, all stores in specific states, for example. So this is a reflection of the huge expansion mistakes that took place when competition accelerated growth.

Obviously, what we saw in '17 and '18 was a peak in terms of competitive activity. What we're seeing now is a valley. And we have to know about that. And this valley is lasting through this year and very likely through next year. But this is opening a huge window of opportunity for us to accelerate market share growth. Obviously, at some point, after closing profitable stores, reducing expansion, which allows mature stores -- which allows existing stores to mature. Obviously, as the markets are opening a lower number of stores, I think the numbers of our competitors will slowly start to improve. So at some point, I think you'll see a normalization of expansion. I don't think this happens this year. I don't think this happens next year. But even when it happens, I don't think it will resemble '18 or '17. I think it should be something in the middle. But meanwhile, we're accelerating and taking advantage of this environment.

So on Page 7, we see that out of the nearly 2,000 stores that we had by quarter-end, 1,107 were Drogasil, 885 were higher. With the Onofre acquisition, we surpassed the mark of 1,000 stores in SÃ£o Paulo alone. We have already 241 stores in ParÃ¡. So this is a very -- I'm sorry, in the Northeast, which will have been opened for the last five years. So it's a very significant number. And we already have 30 stores in ParÃ¡ within one year of operation. So this has been our fastest expansion anywhere. And we are very happy with the results in ParÃ¡, which look very much like the results we have seen in the Northeast, which are very good.

We are also opening today our initial 2 stores in Amazonas. So this is the last large state in which we were not present. So this leaves us with 4 more states that at some point, we will have to decide if we go there or if we don't. I think it's also important to mention that with the 2,000 store count that we just reached, we are the #1 retailer of any segment in Brazil in terms of store count, in terms of owned stores. Obviously, there are franchising players, that I mean, like BoticÃ¡rio that are bigger. But they don't operate all the stores. They don't own their stores. We are the largest retailer of any kind in Brazil in store count with proprietary stores.

Talking about market share. We see a very significant growth. So our national share reached 13.3%. Onofre represents only 0.1% of that, of the growth. So it's not -- it's basically about mature store performance and organic growth. In SÃ£o Paulo, we reached 25.7% of market share, 2.5percentage point gain. And I'll also highlight that we have already 8.3% in the Northeast and 3.2% in the north. We have gained share in every market where we compete.

And finally, in the lower part of the chart, where we see the proportion of -- where the expansion is taking place, obviously, with the 42 Onofre stores, the bulk of which are in SÃ£o Paulo, we have now a larger number, again, in SÃ£o Paulo, 107 stores. This represents 39%, while in the previous quarter it was 28%. But if you look back to 4Q '17 or even before that, we have now, with Onofre, the same proportion of stores in SÃ£o Paulo that we had without Onofre. So this shows how decentralized our organic growth really is at this point.

On Page 8, I'll give some more details about the growth. So out of the total 20% revenue growth, the retail business grew 20.7% and 4Bio grew 25.3%. When you look in terms of mix, generics and OTC have been the highlight. So OTC has grown 24%. We have switches helping here. We have a strong winter helping here. We have new product launches helping here. And generics has grown 22.7%. It's a very good number. Generics now solidly growing ahead of the rest of the mix. And this is basically driven by volume. By investing in prices, our volumes increased very significantly. Initially, the price erosion didn't allow the total revenue growth to be in tandem with the company. But now as we have more quarters of unit growth and as comp base slowly normalizes, we're seeing generics as a key growth category for us.

Page 9. Here we can see our comps. So out of the 21% total growth, 11.9% was same-store sales growth and 7.7% was mature-store growth.

So we're talking 4.8% real growth in the quarter, ahead of inflation. Calendar helped by 0.4%. But what I'd like to point here is if you look in the quarter, our average revenues per mature-store, it was BRL 843,000. So nobody in Brazil has revenue per store like this, especially among large chains. So this is a very unique performance. And in the end, it highlights also the quality of the expansion. Obviously, last year's stores are still maturing. But the stores we opened in 3, 4, 5, six years ago, they are here within this number. So this is another evidence of the quality of the expansion and also the quality of the operations.

On Page 10, gross margin. We had 27.7%, this is a 60 bp erosion. And I -- the new volume -- the new margin, the new structural margin for the company. I think from now on, our margin will grow or not grow. But from this point.

The reason why we've seen this pressure has nothing to do with this year, it has to do with last year. As you know, we did a very significant price investment in 2018. But our margin is almost flat last year. That's because we did a lot of opportunity purchases that generated peak trade allowances that offset the price investment we did last year. Since we don't want to create a bubble within the company, we have now normalized the opportunity buys. So the margin pressures that should have appeared last year because of the price event is now appearing. And so we have a new structural margin level for the company. And from -- we'll see where it goes from here. But this is what we should expect coming forward.

And here on the right, we see the cash cycle, which improved by 0.5 days. Considering the level of operating leverage we get -- we got in the quarter, obviously, the cash cycle gain should have been higher. The thing is, we opened 3 new DCs this quarter. So there's a lot of inventory redundancy now because when you have a new DC, we have inventories. And we still haven't had the time for all the DCs to get down in inventories. So I think in the coming quarters, we will see more cash cycle improvement really reflecting the gains from operating leverage.

On Page 11, I think expenses were the highlight of the quarter, together with mature comps. And they are actually a reflection of mature comps. So we generated so much operating leverage that our sales expenses diluted by 70 bps. We saw a 10 bp pressure on G&A. This has more to do with a valley last year than with the pressure. We see that G&A this quarter is in line with the previous quarter. And it's interesting because we have invested a lot in our structure. The agile teams, analytics, we have retained 131 people from Onofre by choice. And the growth has been so good that these additional investment has been absorbed by the company.

So I think 2.3% is a good level. All in all, it's a 60 bps expense dilution, which fully offset the 60 bps margin pressure, allowing us, as you can see in the next page, to maintain the margin flat at 7.5%, with an EBITDA of BRL 359.4 million in the quarter. You see that the 3Q EBITDA in absolute terms is almost the same of the Second Quarter when we had -- when we have the price increase, when you have always that onetime effect in our numbers. So it shows the robustness of the quarter, this number.

Here on the right, we have a summary, looking by business. So on a consolidated basis, as I already said, EBITDA grew 21.7%. If you look only at the retail business, our EBITDA margin was 7.8%. Revenue grew 20.7%. So we had a total EBITDA growth 21.1%, which is a very robust number. And finally, 4Bio. 4Bio had 25.3% growth, still a very good level of growth, which comes on top of 40% growth previous year. We had a 2.7% EBITDA margin this quarter. And because we had seen EBITDA pressure last year, 4Bio's EBITDA is growing around 62%, which is very good.

Next page, please, 13. We see that the (adjusted) net income was BRL 152.5 million, 10 bps pressure over the previous year. And here, I'd like to focus on the right part of the page, which is a nonrecurring expenses. For RaiaDrogasil, just considering Onofre, we had BRL 9.5 million nonrecurring expenses. Most of them were noncash. So we had BRL 6.3 million asset write-offs from store closures. We had BRL 3.3 million related to the closure of the huge Rio de Janeiro DC, which would be opened closer to the city.

We also had restructuring expenses of BRL 4.5 million. We have been improving our structure. We had people changes in this quarter. So this number comes from that. And finally, we had positive credits for INSS relative to previous years of BRL 4.6 million. But the main point here is about Onofre. So we had a nonrecurring negative goodwill gain of BRL 357.7 million. This is the fact that we paid 0 for a company, which had this kind of book value. It's a taxable gain. So we paid taxes over that.

We also had other net operating losses related to Onofre of BRL 85 million. But the bulk here is noncash. We had BRL 67.8 million in asset write-offs, which are noncash. So we're closing DCs, stores and things like that. And finally, we had a BRL 17 million integration expenses. And we had BRL 10 million in negative results from operations, which have not been integrated. So all in all, the cash expenses from the Onofre integration, considering integration expenses and negative initial results, is BRL 27 million. And it's important to mention that the existing assets more than -- way more than support this.

If we got back to today page where I detailed Onofre, it's very important to mention here that if we consider the net cash balance that Onofre has, plus sale of commercial properties, plus reduction in working capital, plus tax recoveries, less contingencies and less these negative expenses and integration and negative initial operating results, we have a surplus in excess of BRL 150 million, something between BRL 150 million and BRL 200 million. So if we get Onofre. And if we got 0 value from the stores, we create BRL 150 million of value, considering these expenses. So in the end, the value Onofres create is this BRL 150 million-plus, plus whatever the store and the e-commerce operation will generate in value.

On Page 14, we can see that we generated a positive free cash flow this quarter of BRL 120 million and a positive total cash flow of BRL 114 million. We have the effects of Onofre here showing up as nonrecurring expenses, BRL 263.5 million. So the book here has to do with this -- the negative goodwill gain. But also we have negative effects in other assets and liabilities because not everything here is cash.

Finally, before passing the ball to MarcÃlio here, our share has done really well this year. So 67.6% appreciation, EBITDA at BOVESPA had -- the BOVESPA Index has grown by 19.2%. So we generated an alpha of 48.4% in the year. And we have had an average trading volume of BRL 89 million.

So MarcÃlio will now talk more about the quarter. Then before Q&A, I'll come back to talk about some Investor Relation highlights. Thank you.



## MarcÃlio D'Amigo Pousada

Okay. Thank you, EugÃªnio. Let's go to page 16. I'll stress 4 points here. The number 1, the record review mature stores, okay. We had 2 points that is good for our strategy. The first one, this cycle. I always talk about this cycle, talk about the (chief) implied that peoples like -- smiles about me. What does that show for us? The competitions starts to open stores like crazy when you're -- or when do we know for -- talk to everybody that it's impossible to open stores with good quality like us. And you know, this is a cycle that goes decelerating. This starts decelerating this year. And it's helped us a lot to grow the markets, okay.

But the best number in the sales that came for us to stay with us in the -- is the growth in Generics business. We started to reduce the price in (last April). And the growth in Generics business is much good right now than the past. And better here, which are growing in the popular stores. Recall, in our cluster, the stores start to reach the low-income people. We have 400 stores. These stores are growing more than other stores. These numbers are good for us and help us for the future also. With this good number in sales help us to achieve the operating leverage gain. I think we have the best number (in the industry) and we're looking for the selling expenses of 7.9%, okay.

We reached this number. And we reached the record numbers we had in the past of the stores. It will have the, I think, (dormant) in the stores that the -- the place that the customer can evaluate or servicing them at the moment and to reach the best number where we are historically. That we don't -- we start to put more (cost) in stores. We increased the tickets and numbers in the stores but (inaudible) to hire more people. This is very good for our business. And we do this for the future also. We have these good numbers in expense even if we have to open 3 new DCs. It's difficult to open new DCs. And we are not planing to do this next year, maybe next and following next year's results.

What did we see for this quarter also? We launched our new apps. These new apps has 2 different sites, 1 sales -- normalized for sales but the other 1 is to offer (Drogasil) to customers for exclusive offers. It's doing very well. And we started to roll out the product in SÃ£o Paulo area to deliver the goods for the customer in 4 hour. Maybe in the end of this year, we can reach certain areas in 1 hour, okay. We have it in 11 other cities. And we expanded our Click & Collect, which is the controlled medicines. All of these helped us to put the e-commerce business much more near to the stores, like you saw in China last year, okay. We are doing this in Brazil, maybe you have 2,000 stores delivering for the customer and to the end of the next year.

We completed the integration for Onofre.com. Onofre.com will be a pure-play e-commerce brand. We're looking forward to -- towards more price in this site. And this can help us to -- maybe Onofre.com can use our store base (inaudible) for the customer (orders), the goods for the customer.

What's in the (revised property). We reached 2,000 stores. We opened stores yesterday in Iguatemi. Iguatemi, is our main shopping in SÃ£o Paulo area. It's a very, very important shopping mall, okay. We -- when you look since May 2014, when you reached 1,000 stores. And today -- yesterday, when we reached 2,000 stores, we opened 1 store every -- each two days.

This is not openings of good stores. We are opening the best stores also that shows the -- in our results. We are very proud about that. And we know it's difficult to open stores. And we know how to do that. We opened our initial stores in Manaus, 2 stores today. Manaus is -- the state is not so big. But the city of Manaus is big. It's a challenging logistics site for us because we have to deliver the goods by air. But it's good. We are almost in all the -- the Brazilian area; we have in 23 different Brazilian states. These 2 points is very important for us, that's a show for us. They are bridging this company to open stores, to open good stores to continue to grow the market.

Now we are ready for EugÃªnio, who highlights IR items. And we'll be here for the question and answer. Thank you very much.

## EugÃªnio De Zagottis

Okay. So just to wrap up here. We have -- we will publish our Fourth Quarter and annual numbers on February 20, 2020 and we have four conferences in which we'll be attending in the coming months. So this month -- next month, November 20 -- 19 to 20, we'll have MarcÃlio and Gabriel in New York for the Bradesco conference. December 4th and 5th -- 4 and 5, we'll be at the JPMorgan conference in SÃ£o Paulo. January 13 and 14, we'll have Gabriel attending the J.P. Morgan Healthcare conference in San Francisco. And then January 15 and 16, Gabriel will also attend the Santander LATAM Conference in Cancun. So these were our prepared remarks. So let's go to Q&A. Thank you very much.

# Questions And Answers

## Operator

(Operator Instructions) Mr. Joseph Giordano from JPMorgan would like to ask a question.

## Q - Joseph Giordano {BIO 17751061 <GO>}

Actually there are like a couple of ones. The first one is related to mature store growth. So we have been seeing some weakness in the competitive landscape, particularly we have a much lower volume of openings here. So how do you expect the performance of mature same stores for the next year or so? The second question goes into the digital initiatives here.

So just trying to understand a little bit how the digitalization of the customer journey has been helping the store sales and also the inventory allocation? And lastly, when we look at the distribution structure of the company, you're entering like more distant states.

So I would like to understand a little bit, what's the potential for like stores in the Amazonas area, right. So that's where we have a very complex logistics. And on top of this, how we should be seeing the ramp-up of those recently opened facilities in terms of a reduction of cash cycle?

## A - EugÃªnio De Zagottis

Joseph, thanks for your questions. I'm just writing them down, you made four of them. So I'll go one by one. If I get -- if I miss something or if I get confused about any of your questions, I will ask you to repeat. So your first question was about the mature store growth trend. I think we are at a very good level right now. Obviously, the Q3 last year was a low comp but still we should be -- we should have a very good comp for the Q4 and probably for the first semester of next year because we are carrying basically the kind of comp for next year, that's our expectation in this, right.

Obviously, by the second semester of next year, we'll start looking at this number and things obviously will get way more challenging for us.

But given the fact that we have invested a lot in prices, we are more price competitive than we have ever been in the past. Given our digital efforts that should be another growth engine for the company, our ambition is to sustain real mature store growth going forward. Obviously, it will not be at this level after we find this comp base next year but still we believe we can sustainably generate real comp growth going forward. I talked a lot about the gross margin during the presentation. I think we have a new level for the gross margin that reflects -- that now fully reflects the price investments made. But we have the aspiration also of increasing the margins, even for next year and onwards. But I think this has to happen based on operating leverage gains driven by this mature-store growth. It won't be gross margin gains, like we have seen in the past.

Obviously, we still expect to buy better every year but the idea is that we pass that to our prices so that we are always competitive. I'm not saying that margin is exactly -- the gross margin is exactly flat. But I think it will vary to as more extent from this level that we have now. So this is one question. The second is about the impact of digital.

We already see digital driving comps. Obviously, digital is still a small percentage of our revenues. Before Onofre, it was about 1%. With Onofre, it will be around 2%. But this is growing a lot.

I'm sure this number will get bigger than it is today. I don't know where it stops. But I think it will get much bigger than it is today. But even if today is small, the growth already shows in our comps and I think this will be probably the main driver of maintaining real comps growing ahead of inflation in the future.

In terms of inventories. We don't have to do anything with inventories in the stores to support digital. Digital is just another sales for the store. Doesn't matter if the company -- if the customer bought in the store, if it was a Click & Collect (pick) in the store or if it was a delivery from the store. It shows in our numbers and other sales. And our algorithm is automatically recalculate the inventory to cope with that. And because our inventory is just like our store expenses are roughly fixed, when we grow mature stores ahead of inflation, we gain operating leverage both on expenses and on the cash cycle.

It hasn't happened this quarter because of the new DCs but I think it will materialize over the coming quarters.

Then finally, you asked about Manaus. So Manaus is an important capital in Brazil. Amazon in physical terms is a huge state. But in terms of population and market, it has only a small city besides Manaus. But Manaus is an important city. Obviously, there are no freeways into the Amazon. So we have to ship by air.

Obviously, for the local competitor who has a DC in Manaus or receives from an (inaudible), I think they have another starting advantage over us. But here, the question is if we can based on our locations, based on our execution, based on our service, based on our prices. If we can differentiate ourselves enough so that these logistics costs gets absorbed by the business. I don't know how it will play out.

So obviously because of the logistics, this is probably our highest risk expansion ever. But we are starting 2 stores. Eventually have 5 stores, 8 stores, 10 stores.

Frankly speaking, whatever happens in Manaus doesn't move the needle for the overall number. But we want to succeed there like we have succeeded everywhere else. I don't know if I forgot something.

## Q - Joseph Giordano {BIO 17751061 <GO>}

The ramp-up of the distribution centers.

## A - MarcÃlio D'Amigo Pousada

Yes. So we have 3 distribution centers which started operating in the quarter. Doesn't mean that they are fully operational. Some are just buying or they just started shipping for a small number of stores. So I think by the end of the year, the all 3 new DCs will be up and running. I don't know if for the Fourth Quarter we see the reflection in terms of reducing rental is probable -- maybe some. But certainly not the full impact. But I think that by the time they get fully operational and with the due time for us to reduce the inventory levels, in the DCs that were previously servicing the stores they are now getting serviced by the new DCs I think we will see the beneficial here. So probably First Quarter next year, I think we should have a fully normalized working capital.

## Operator

(Operator Instructions) It appears to be no further questions. Now I will turn the conference back to the company for their final remarks.

## A - EugÃªnio De Zagottis

It's funny that we get way more questions in the Portuguese call than in the English one. But Joseph made it up be with his four questions so I think we are now even.

So talking about the quarter. I think this was an amazing quarter for us. I think very, very strong growth as mature stores, significantly ahead of inflation. The expansion has been also very solid. We are opening 240 stores this year. And have already announced the guidance of 240 stores for next year. And we see that the result of the new store, it's being amazing.

We always measuring internal rate of returns on a real basis and net of cannibalization.

Then we always shoot for 20%. Generally, we are somewhere between 18% and 20%. We are now at 21%.

So in theory, we should be seeing diminishing returns. But in reality, we are not seeing diminishing returns as of yet. And this is amazing for us. And frankly speaking, even if we were at 15%, I mean, this would be internal value creation. And this should be accretive as it takes place on top of a pre-existing structure for the company. So 21% is really amazing.

We are also integrating -- we have just integrated, as MarcÃlio mentioned, Onofre's e-commerce business. So next quarter, the Onofre impact in terms of revenue will be bigger because we have seen two months of store sales. Next quarter, we'll see three months of store sales, plus the e-commerce, which is basically doubling the revenues of Onofre that we have reported in this quarter.

So this will be another top line driver for the company.

We have seen, as I mention also during the presentation, a very favorable market environment with few openings, a lot of competitors leaving specific markets, significant number of store closures like we have never seen before. Again, I think this is a window of opportunity of 1 to two years. I still believe we'll see a single trend to this next year. Eventually, it will normalize but normalization doesn't mean '17 and '18. I think it means something in between. But meanwhile, we will have very strong share gains and when it normalizes, we will have good share gains. So this is a window of opportunity we're definitely taking a ton of advantage. And finally, we see great trends going forward. I think this mature store growth momentum would translate into the beginning of next year. We should sustain very, very high mature comps as we finished this year and start next year. So digital will become another -- is becoming actually another growth avenue, another growth engine for the company. And this should accelerate, first with Onofre but also with the growth of our omnichannel operation. We see very high numbers. We have every store doing Click & Collect. We have -- for our delivery in SÃ£o Paulo and 11 other cities, we will be extending for our deliveries to the whole country. We're already piloting 1 hour delivery in SÃ£o Paulo and eventually there may become another alternative for the consumer. So digital will be very important for us coming forward.

As I mentioned, we believe we will grow the EBITDA margin next year. I don't think it will be a gigantic growth. But I think we'll see some growth. And I think it will be driven by operating leverage and not driven by gross margins, like we saw in the past.

And finally, our focus -- people love margins. But our focus is on absolute growth. Just conceptually speaking, we grew EBITDA 21%. I would prefer to have grown EBITDA 23% even if that meant a lower margin. As far as we are -- same expansion, meaning same capital allocation, EBITDA, absolute growth is what matters for us because this will translate into higher value creation, value higher returns, et cetera, et cetera, et cetera. So this is the priority. The priority is no longer EBITDA margins, which doesn't mean we can't expand EBITDA margins. Thank you very much.

## Operator

The RD conference call is now finished. Thank you. Have a nice day.