Q1 2020 Earnings Call

Company Participants

- Orivaldo Padilha, Chief Financial Officer
- Roberto Fulcherberguer, Chief Executive Officer

Other Participants

- Andrew Ruben
- Daniela Bretthauer
- Guilherme Assis
- Gustavo Piras Oliveira
- Irma Sgarz
- Joseph Giordano
- Richard M. Cathcart
- Robert Ford
- Ruben Couto
- Tobias Stingelin
- Victor Saragiotto

Presentation

Operator

Good afternoon, ladies and gentlemen. Thank you for waiting. Welcome to Via Varejo's Conference Call to discuss the results for the first quarter of 2020. This call is being broadcast via Internet and you can have access to it at our website, www.viavarejo.com.br/ir, where you will also find the company's presentation.

The slide selection will be managed by you. The replay will be available after the call is finished. The company's press release is also available at its IR website. This call is being recorded and all participants will be in listen-only mode during the company's presentation. After the Via Varejo's remarks, there will be a Q&A session when further instructions will be given. (Operator Instructions)

Before proceeding, we should mention that forward-looking statements made during this conference call regarding business perspective, projections and operating and financial goals are based on the beliefs and assumptions of Via Varejo's management as well as on information currently available to the company.

Forward-looking statements are not guarantee 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. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Via Varejo and cause results to differ materially from those expressed in such forward-looking statements.

With us today, Mr.Roberto Fulcherberguer, CEO of the company; and Mr.Orivaldo Padilha, CFO and IR.

Now I would like to turn the floor to Mr.Roberto Fulcherberguer.

Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon, everyone. I would like to thank you very much for being here with us in the call. I hope everyone and also your families are doing well and are all healthy right now at this moment that we are going through our society and everyone in the world is going through.

I would like to start by repeating what we said in our last call in March talking about the fourth quarter of '19. We already had the pandemic happening at that time. But I would like to say that since we understood what was happening out of the country and that what could happen in Brazil, we have taken all protective measures in an anticipated fashion, whether for our employees or customers as well as for Via Varejo itself.

So at that time, we put together several committees in the company to tackle the issue. These committees are working since then, since day zero. They are active right now, fully operational. And they are developing all the protocols needed for the different areas in the company so that we can go through the difficult moment.

I think the mission that we have here today is to show you that in 10 months, it's possible to make a digital transformation of the largest retailer in the country. I think that the years are going to show you how far ahead we are in this transformation and how digital we are already at this time. We have taken over this company of bringing productivity to the strong assets the company already has. And at the same time, to make a huge digital transformation to manage and optimize even more of these assets.

Today, we are going to show you with our figures and the figures that we bring to you today, I can tell you that just a tech company could bring to you. You hardly will see a non-digital company being able to disclose these type of figures. And not only being a digital company, I think to bring you these figures, it has to be a digital company and a company that has assets, assets such as 85 million customers that is based, the most traditional credit assignment in Brazil, top of mind brand for over 14 years, a strong commercial know-how, great logistics and several other assets that our company has.

The pre and post-COVID numbers that we are going to bring to you make it very clear that Via Varejo has placed the technology as the main player to ensure a scalable growth, speed. And we can say that an important share of our digital transformation has been already executed, and it allows us to compete side-by-side with the other players in the market, whether online, pure online players or players that we're referencing the digital transformation in the retail market in Brazil. Actually, we are going to show you here that even large retailers such as ourselves, can be agile, adaptable and scalable and even better.

I will start the presentation on Page number 2. And I have to mention about our corporate social responsibility, and everything that our Casas Bahia foundation, which exists for many years already, is doing right now. We are working in coordination with governments, communities, entities, several companies and different partners as well. With a lot of agility, we are taking several actions very quickly. We have a very clear and strategic vision regarding sustainability and corporate social responsibility as well. We know what is our role in society and what is our calling to work with a very well-defined purpose. In terms of reputation, the Instituto Croma Insights just published a survey, and we are among the 10 top of mind brands during this pandemic.

Here we have some of the things that we have carried out during this period. We have always been very much engaged to the different communities in the country. Whether -- because we have stores in these communities or because we have stores and social projects or just social projects. We have always had those. Our relationship has always been very close to them, and right now, that is even stronger. We are very happy about it.

There are several companies that also engage into it, and they found out more about the communities in Brazil. And they know that they need help. And we understand that this is a legacy that is here to stay. These companies probably will be always -- be helping and will keep on helping. We have around BRL5.3 million in donations, BRL1 million for an emergency fund for the F.E.M. E. entrepreneur, and that has to do with a small -- very small loans for these F.E.M. E entrepreneurs can either start or continue their own businesses.

Also, we had a live with Sandy and Junior. We talked to them and we understood that the message that they convey had a lot to do with what we wanted to convey. So we partnered for this live. We had BRL3 million on this live, that corresponds to over 1,000 tons of food, and we donated around 70% of these 1,000 tons. That went to Mesa Brasil and other charitable institutions as well.

We have distributed over 4,000 staple food baskets and also hygiene cleaning products kits, 300 of those, also beds and mattresses, home appliance, electronics for communities, hospitals, municipal, state and federal governments.

Our logistics is very strong. We are helping also some initiatives with our logistics. One of them was to repair ventilators done by the automakers, the auto industry. We helped through with our logistics. And also, we are helping with logistics for fabrics who are manufacturing 62,000 masks in a Donate Mask project. These are some of the examples of our actions, we understand our social duty and how much responsibility we have at this moment.

Now turning to Page 3. I will turn to the highlights for this first quarter. We have reached BRL7.8 billion of GMV and 27% of that was in our online channel that represents 8 points of growth in the online penetration on top of the first quarter of '19, a robust growth in the online channel.

For 1P, we grew 52% in the first quarter of '20 and if we also isolate March, which has 10 or 11 days of closed stores, we would have over 60% growth. And 3P growth was 27% in the first quarter and 37% if we isolate just March. So there is an exponential growth in the number of active users in apps.

We went from BRL1.5 million in June of '19 to BRL8 million in March of 2020. And in April, we already reached BRL11.2 million. There is a chart up ahead, and I think we'll be able to better understand how sustainable this growth is.

On Page number 4. We have a major highlight for the loss reversal of BRL50 million in the same quarter of last year to a net income in this quarter of BRL13 million. So we had a loss of BRL50 million, now we have a net income of BRL13 million.

And we ran an estimate, and this estimate, we considered the result that we had up to the day when we closed the stores, we had 98% of our target met for March. And then we carried out those 10 remaining days out to the same projection of 98% (Technical Difficulty)

Operator

I'm sorry, we got disconnected. Let's just wait while we come back.

Roberto Fulcherberguer {BIO 17276995 <GO>}

So that was BRL1.9 billion, a growth of 11.5% on top of the first quarter of 2019. The adjusted EBITDA margin, and Padilha will go into the details, but it was 1.7 points above first Q '19, reaching BRL621 million, a growth of 22% of the EBITDA margin. Total GMV, I already mentioned, BRL7.8 billion, 27% coming from the online channel, a growth of 8 points above the first quarter of '19. And in March alone the online channel represented 34%.

We ended the quarter with cash plus undiscounted credit card receivables summing up BRL2.9 billion. The figure is very important. Now talking about the market share on Page 5. Why we understand our digital transformation is already at the level in which we can compete side-by-side with the other players.

We bring to you GfK and Compre&Confie data, so we have week-by-week. To the left, we have GfK's information. We started the 13th week, that's when everything started, growing 43% on the online category, and the market, not including Via Varejo's growth, so that is market minus Via Varejo, dropped 2%. In 14th week, we grew 83%, and market without Via Varejo grew 56%. 15th week, 120%. 16th week, 337%.

17th week, which was published by GfK -- so 18th week should be published in the next few days. But in the 17th week, we grew 383%, vis-a-vis 61% of the market growth, again, not considering Via Varejo.

We have another source, which is Compre&Confie from the Clearsale Group. So for GfK, it's everything that is in the online in our segments with the different companies from Brazil, and all of them that have exchanged numbers with GfK. So here we have 90% of the online companies under GfK.

Compre&Confie considers all the categories, everything that goes through Clearsale, runs through Compre&Confie. And everything that is online, regardless the category, everything is here including food. So we start growing 148%, vis-a-vis the market without Via Varejo at 24% and we have a growing curve.

In the 17th week, we reached 307% growth, vis-a-vis the market minus Via Varejo at 76%. It's important to highlight that this growth that you see here places Via Varejo in the 17th week, going from a share that we had of 20.4% before the crisis to a share of 43% of everything that we have in our segment in the online category. So our share had an exponential growth. And I can tell you that we are already digital because a company that's not digital and a company that doesn't have the assets that this company has, would not be able to reach this quick growth and to allow that much flow of volume in all the sales.

So on Slide number 7, we see here a SimilarWeb, and also very known that is another tool that we use to measure traffic. So we are in the green line here. In April, we have grown 54.9%. And here, we are comparing ourselves to competitors, whether online, core online competitors or other competitors that are referenced in online transformation.

And here, you can see that we have the highest growth in this period of time. That is thanks to a lot of work and dedication that we are doing since D0 when we took over the company and we've reworked and we are doing in our tech area, and everything that we have been doing in our channels, in our online channel so far, still in a number of visits in the SimilarWeb.

If we isolated the number of visits for the first quarter of Via Varejo, we had 180 million visits. Our direct competitor had 148 million in the same period. If I consider April, we had 88 million visits. Our competitor had 54 million visits. These figures are available to the market. These are not figures that we brought to you, the sources are there. So all these figures do have an origin.

Now turning to the next slide. I think you can see it even more clearly, here we have the traffic by SimilarWeb by itself that's not as relevant because it's also following up the growth of the MAU in the app. So we have retailers that are a little bit more focused and have a higher concentration on the app.

And I think that the sum of these two figures here, bring us the real projection of what is happening to Via Varejo and we have grown in terms of visits in our app, 345% in the first quarter, 450% if I consider March alone.

Now looking at the chart in the bottom of the slide is clearer. You all remember we see here in the first and in the second call, we said that we have removed ourselves from the online sales because we were making important adjustments, there were problems creating noises with consumers.

So, in fact we started accelerating our online sales in September. We started with 2 million of active users in September. We ended December with 5,200. We ended March with almost 8 million. And then we are basically adding 1 million users a month up to now, the end of March. So we scaled April to 11.2 million. And the greatest news that we have is that up to May 12, we already have 12.5 million users that are active in our app.

So, I think it's important to say here that we see how relevant all of this is when we look at core digital player celebrating 18 million of active users. We already have 12.5 million in 10 months.

And we also see retailers that are referencing transformation very recently celebrating 20 million MAU. So, I cannot give you any guidance. But given these projections, you can make your own estimates of where we could be in a very short period of time.

Another very relevant piece of information is that we are already mobile first. So, when we add the penetration of in-site and app, that already represents 67% of our online GMV. So in April, 22% of our income came via app. In May, that increased a lot, in-site as well, and that takes to that penetration of 67% and of our sales already coming from mobile.

Other highlights here on this slide. Talking about the COVID period. We started April reaching 70% of our budget -- our digital -- original budget for April. We gained a lot of traction in the month of April, and the figures that we've just presented about the share, they show it.

We ended April with 90% of everything that we sell of goods that we sold in April of 2019. So 90% of the amount of sales sold in April of 2019 has been done now, 90% of that in April 2020. So, I think that most relevant information is that, that was the beginning of the crisis. It was only natural that it would have a higher online demand.

But the figures are showing sustainability in our growth. If we consider May, that is among the best-selling month in the year because of Mother's Day. That is the second or third best day in the year, of the Mother's Day. We are at 10% higher than our total sales volume made in April '19 (Technical Difficulty)

Operator

I'm sorry, we got disconnected once again. Let's wait a little bit, please.

Roberto Fulcherberguer {BIO 17276995 <GO>}

So, I'm going to insist that this company is very digital to have sales growth on top of May of last year with 80% of the stores closed. Really, we are looking at the figure here with a lot of enthusiasm and we are still maintaining our encouragement and our strength to add more users to our base.

In some remarks I even said that we found a gold part in this crisis. I already mentioned also that this team is very resilient in terms of moving fast. We have always been a transformation facing many turbulences, and we adjusted ourselves very fast. We were not just complaining for even a day.

We reacted immediately to see how we could do the strong migration to our digital segment, then the teams had this idea of another program called Text Me on WhatsApp that corresponds to many of our sales in a consistent fashion. The Text Me on WhatsApp has a nice feature. This is going to be one of the functionalities of our digital seller.

So our seller is already digital, we have turned this key. We do not have conflict in this company anymore about the physical seller and the online seller. That's a digital process already, and that helps us drive a lot our number of active users.

The online seller became a worldwide Facebook case. Now this is happening to bring in a number of consumers in this online world. There with the study released by Google a few days ago, and they have a term that's called digital immigrant. And these digital immigrants are those that don't understand quite well how to purchase online.

And they estimate the figure at the end of 2018 with over 100 million people. That is the largest part of the population. And they estimate that this figure is still very relevant in our current scenario.

And the search for the phrase in how to purchase online has grown 198% in March. So that shows the relevance of what we have done. Now online sales became humans. Customers that have a problem purchasing online will just click on that button. They start interacting with our sales rep and our sales rep is going to be with this customer up to the final moment of the sale.

Also, during this crisis, we had another very important initiative. We launched our digital payment book. So that same payment book that they have in the stores and governed by, it was also launched in a digital version, we got our base of 85 million. Customers we separated 4.5 million of them, and we enabled them to start the test. So these 4.5 million customers are ready to go into our digital platforms and to purchase using the credit system that we have.

And this is an unprecedented advantage in the crisis moment and also for the post-crisis as well. It's only natural that right now, the banks are going to reduce the credit card limit for customers everyone who wants to avoid risk. And we have a strong base here of customers and we know how to find credit in the company for Brazilian population. So we do have a share gain here in the continuity of this digital payment book. Within a few months, this is going to be open for any customer that uses our platforms.

We also had made a decision by the end of March of postponing April's installment considering our consumers, our customers who are used to paying those installments in the store. Even having done that 62% of our customers pay the payment book somehow whether using bank apps or lottery branches or bank branches and so that make us -- made us very happy about the quality of the credit that we assigned to our customers and the loyalties that they have with our payment book.

Our Bartira factory also has something new. We have signed an exporting deal to the U.S. (Technical Difficulty)

Operator

I'm sorry, we got disconnected once again. Let's wait a little bit, please.

Roberto Fulcherberguer {BIO 17276995 <GO>}

That we had frozen investments indefinitely until we understood where they were heading to. However, we did not stop anything about IT investments, something around BRL300 million this year, quite the opposite. We strongly accelerated the investments. And we believe we will walk out of this crisis far more digital than ever.

On the next slide, we will show the case study of Facebook. So it's a world Facebook case published by them. Our initiative Text Me on WhatsApp, so it is heavy inclusion involving our seller team that becomes digital and also the inclusion of our consumers who are not digital, but are becoming digital, and also the inclusion of several other consumers, several other retailers, and the number of new consumers as we speak is growing exponentially.

The main benefit to us is that once we overcome the crisis, then we're going to have more than 20,000 sellers active in the stores. When there is no customer in the store, they can perform online sales, fed by our CRM, which was fully reformatted with new decision-making rules, or by being called by consumers in our platforms. And we also managed to perform online sale of our whole 3P.

Our marketplace, therefore, is going to be extremely powerful once our sellers perform the sales. Another very important piece of information is that even with digital payment books that were just implemented for the Casas Bahia banner, and soon will also be available to all consumers, this will also fund marketplace items SKUs.

So, the main benefit we see today in the market of having a high number of sellers, we understand marketplace is a big shopping mall. No exclusivity of store malls. The banners go to all malls. And they're trying to be more active in the malls where they have more people flow.

We can see people traffic as a very strong progress evolving the digital payment book, which will also be at the service of sellers. And our full logistics platform that I'll be referring to later on, which will also be at the service of our sellers.

So as soon as we deploy improvements to our marketplace too in June, we believe there will be a big exponential gain in marketplace. (Technical Difficulty)

Several states already had lockdown decreases. So since on the 18th, we already had the stores being closed. So on the 18th, we started with 15% of the stores closed, and that is revenue -- 19th, 33%; and the 20th, 46%; and then on the 21st, we had 100% of our physical stores closed.

Therefore there was an estimate of how much this loss would have been. Of course, this is a very conservative estimate. We went over our budget on the date. And we believe that the loss of revenue in physical stores has been of BRL726 million in this period when we closed March. And that has caused an EBITDA impact of BRL97 million and BRL87 million in our net income.

If we had a performance without the COVID effect, we would have a total GMV of BRL8.5 billion. That shows us a very significant growth in the company. Another relevant data also coming from the lockdown, is that we have taken several cash protection actions like prepayment of receivables. And with that, we have prepayment expenses with interest, of course.

And in the last two weeks of March, spreads doubled. So we did have a detachment there of BRL34 million extra in expenses because of that. Should we have that, our expenses would have been BRL284 million, 4.10% on top of sales.

We should say also that this result translates better our recurring performance. Now here, we compare the prior year. As I said, there are adjustments in both quarters. They are equivalent. Therefore, accounting comparison can be perfect. It is correct.

So on top of 2019, we have sold BRL227 million more, 3% to 3.10% higher; of gross profit, 30.7%, vis-a-vis 27.6%, an increase of expenses of 1.5, 7% higher; and EBITDA higher in BRL111 million, 22% more, 1.70 percentage points higher, financial expenses because of what I mentioned and also because of higher investments in the last four quarters, 56% higher, 21%, and a reversal of loss of BRL50 million to net income of BRL13 million.

Therefore, BRL63 million better. Comparing that and going to GMV, total GMV considering that we here -- considering physical stores and the e-commerce, and another observation here is that in the fourth quarter, we switched the GMV concept. The Click & Collect is now under store sales in our performance KPIs for sales because that reflects in a more precise fashion, the tax nature of our sale.

So it's totally audited and it can be audited and so if the consumer picks up the store in the store, the invoice will have that store and that tax ID number from the store, the store address and the tax ID of the store. So this was done in the fourth quarter of 2019. So as we mentioned, we have a growth of 3% in our GMV. Not considering COVID effect, a growth of 13%, showing in figures what Roberto talked about in terms of our recent performance.

Okay. I have just a quick comment here. It's important because we understand that GMV, and I know that how you are reading the companies right now, but GMV is not something that can be audited. So we try to provide absolute transparency to our GMV, attaching it to the invoicing unit. So if tomorrow, at some moment, the GMV can be audited, the reality that we have under our GMV will be very clear.

It can be anywhere, on the top, on the bottom or anywhere. A lot of things that happen in this market is there, and we want to provide full transparency to our GMV. And our online might even be damaged by that because the Click & Collect is an online sale that would be increasing our online sales share. And we know that it's much better, but we chose to follow a full transparency path. And that's why it's under the store then.

Orivaldo Padilha {BIO 21118157 <GO>}

Thank you, Roberto. And continuing then, the gross profit for brick-and-mortar stores were growing strongly with COVID as they had a drop of 7% and BRL5.722 billion, but the trend was to have a growth close to 5%. So estimated BRL6.448 billion, with a growth close to 5%. GMV, as Roberto has said, BRL2.188 billion, a growth of 46%.

Now breaking down the GMV on the next page, yes, on that page. Still talking about gross profit as it has been shown a total growth of 21% in gross profit with BRL2.110 billion, 30.4% vis-a-vis 27.60%, 2.6% better in the margin of merchandising and 2.7% better in the credit operations margin.

For SG&A, it's higher in 0.5-point, 20.9% vis-a-vis 20.4%. Here, we have to invest in marketing because of the change in channels from fiscal stores to e-commerce or digital communications. And therefore, adjusted EBITDA BRL718 million, BRL621 million with the COVID effect, 9.80 and 10.30, a growth of 41% of the EBITDA in the quarter.

Well, this summarizes the effect of the net income. As I said, we also have income tax return and EBIT. We have BRL50 million loss in the first quarter of last year, reversal to BRL13 million of profit this year, Without COVID, we believe this would have been BRL100 million at least.

Cash and debt, we ended at a position of BRL2.881 billion in cash and receivables, not discounted. This is also a conservative position. We have approximately BRL300 million of receivables that are recurrent for B2B that doesn't add up here. We can also say that our liquidity is above EUR3 billion -- BRL3.1 billion, vis-a-vis the same amount of last year.

Our bank debt of BRL917 million, the first quarter of '19 to BRL2.053 billion. That is mainly because of the increase of indebtedness in the first, second and third quarters of 2019 when the company has used up cash. Net cash for instance of BRL2.203 billion to BRL828 million. Net cash, not that debt here.

Next slide then we show what happened in terms of cash consumption between the first quarter of '19 compared to the first quarter of 2020. This is a quarter that is very seasonable. We started strong sales in the fourth quarter, especially Christmas and Black

Friday, New Year's Eve and all the New Year sales in the first two weeks of January, a very high cash position.

So on that snapshot of December 31, and it is only natural to have the cash consumption for payments to suppliers in the sales of the fourth quarter. So these payments usually happen on February and March. So it is only natural to have a drop in our cash position because of this seasonality.

We have brought to you both quarters because last year, the consumption was BRL2,200 billion, and this quarter was BRL1.4 billion and showing there was a better cash management, especially because of the working capital management of the company with a lower consumption of around BRL800 million.

And now the company is increasingly becoming more transparent in its operations. I do admit our balance sheet is very complex, really complex, particularly for those who read it. Our operation is quite robust with credit to consumers, and it's consolidated in at least eight or nine accounts in our balance sheets in assets and liability accounts.

So that's the position of our CDCI, our CDC with the same as Casas Bahia payment book. The assets are perfectly explained on Page 24 of our quarterly statement and liabilities on Page 36. So I'm just showing the hit of this operation. In other words, how much the company has as receivables from active payment books.

Receivables from customers and also to transfer to banks that fund the operation with us. So this operation from the moment the payment book happens, the next date is discounted and the money comes as cash. The customer has a debt to the company and the company has a debt to the bank. So it's a transfer flow operation that goes on for over 30 years now.

And there is not a due date of our BRL3.700 billion debt that one day I'll have to work on. It's recurring. These are credit limits. In addition to the BRL3.700 billion, I have other billions approved with banks for good customers, good payers, those who were pre-approved by the company. So in this position, by the end of March, we had to receive from our customers BRL3.549 billion and to transfer or a lending to our partner banks like Safra, Banco do Brasil and Bradesco, 3.7. That's a debt, considered by many analysts, but we have to say that we also have an asset with high liquidity.

Usually, we have some resilience when we receive Casas Bahia payment books and that is a historical fact at the company. One-third of these customers don't even have a checking account at the bank. So for those, maybe this is the only source of credit in the market. So that's why we prefer to have this payment.

Like Roberto said in April, even though we postponed the payment for the end, 62% of customers paid. In the month of May, we are watching and witnessing a growth, receiving more than 30% and even 40%. For this indicator, we can say that we have very low-risk of delinquency and default in our payment book operations. So just repeating that is historical for the company.

So on this slide, I want to show the cash effect of the CDC accounts. Just to make it clear what we mean by our receivables and on lending to banks. Last but not least, a couple of words on our inventories. One of the most successful decisions made by the company in early January when we first heard about COVID and its impact in China, the company made a decision to protect the inventory position.

Please bear in mind that our inventories were all renewed. We eliminated low turnover SKUs in three and four -- in third and fourth quarters last year, our inventories are renewed and with a lot of potential for sale. So, we're already going down, owing to the sales volume. However, we have an ability to replenish these inventories with our suppliers. It's also important to say, and that's a common question to our IR department, no supply agreement with the company happens in dollars. So we don't have any exposure whatsoever with any stakeholder, particularly suppliers in dollars.

Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you, Padilha. So coming back now, I would like to say that everything that happened to the company up to now does not consider several initiatives that will happen in the next 60 days.

In Via Varejo today, we said that by mid-year, we would bring several innovations. So we still have a lot of innovations to come, and they will further improve our performance. So when it comes to the online team, our tribes, so to speak, are all set. That's how they call themselves now, tribes. So they're already up and running and responding fast.

So CDC online, Text Me on WhatsApp was a record time operation fewer than four days for Text Me on WhatsApp. And in online we have new apps coming along now in June, focusing more specifically in usability and speed. This will greatly improve our conversion in our apps. So that's a very considerable change and improvement.

Offline, we have (inaudible) Via+, which is our sales system to our sellers, already starting with recommendations and marketplace. So once consumers walk into the store and they will have a recommendation of what theoretically what that customer would be willing to buy. I said in our latest call that our Head of Data is already on board in the company with a very significant improvement in this front.

A new mobile POS for the next 90 days. This will be in the hands of our sellers with the ability to perform and close the sale fully independently with a POS, with a mobile phone in hand, and the same mobile phone will also be used to perform the online sale. It will be fed by the CRM in the same mobile phone when there is no physical store customer to perform the online sales.

In our IT team, we already have 1,200 people. So the tribes are all set. We already have our banQi team in the U.S., based in the U.S., and we also have our new lab -- tech lab for logistics based in, with the arrival of AsapLog, we have the team on board to have our tech lab with logistics.

What about marketplace? We also have improvement for the next 60 days and a very significant manner for logistics on board and the daily operations of the tenants in our platform. So pretty soon, we can have 10,000 sellers in for day -- per day if you want. And then it's our strategic decision to see how fast we want to have more sellers and how we are going to qualify those sellers.

Our decision right now considering we have some constraints in the number of sellers that we can have, we decided right now to privilege those sellers who already have a good relation with us and having strategic sellers in-house.

So we've just closed a deal with Martins. So you all know Martins. One of the greatest wholesales operations in Brazil. So there are several fronts where Martins is, and will be joining hands also with other players. So we have significant gains for us and everything that involves cleaning, hygiene operations, food. So we go very deep into a new category right now in our marketplace.

Like I said in the past, we don't believe that having a huge number of sellers -- that's not necessarily the rule of the game. What's decisive is having good sellers that's what will make you the winner of the game.

There are many marketplaces in dire straits right now, they are small sellers. They have supply problems. We were even invited to integrate marketplace of some of our competitors. Naturally, it doesn't make sense for us.

We want consumers come to us and experience our level of service. So we have conditions and opportunities to have customer loyalty. So we have all these improvements coming along. We used to say that it would happen mid-year. So this is mid-year. And in 60 days, we'll have these tools up and running.

On the next page, I'm not going to be redundant. That's a big summary of our digitalization cycle. What I want to highlight, and I never mentioned, is that we have 250 stores open. The number is growing from the first and second week of March. We started with 30 then 60 then 90 -- and over April, correcting myself, by the end of April, in late April, we had approximately 220 stores and now already reaching 250 stores.

So, in my opinion, we are very bullish about the whole transformation we've been managing to perform. But we're far from winning the game, epidemics is still strong. And our advantage is that if we have long lockdowns that may happen or even the stores that already open, maybe they'll have to be shut or maybe we have to extend the time in which they remain shut. However, we have the ability to sell online. So we are ready in a new pace at the company, and then we again can have full speed in sales in may be above what we posted last year.

And now banking. We are really intensifying deployment in banking. We hit 1 million downloads in late April. So this is our huge fact. We have plenty of news to happen with banQi and huge opportunities to improve our relations with our consumers, with our sellers and those who are not direct consumers yet. So there is a big opportunity with banQi, and we'll give you more details next quarter.

On the next slide. In the middle of the crisis, we acquired AsapLog, not owing to the crisis we had previous negotiations for a couple of months. So we've been considering several options in the market. And we understood the best and most efficient option was AsapLog.

So here, we gain an immediate ability to work on our last mile. Today, we have 120 mini-hubs. AsapLog is already in many hubs. And in a short time frame, we'll evolve to 180 mini-hubs. And AsapLog tends to be in all of them pretty fast. So week after week, it is getting to new mini-hubs, bringing two main benefits.

Firstly the cost of delivery, be it in 1P when we have the goods very close to the customers. And it gives a lot of logistics, cost dilution and also strong speed in delivery time. With AsapLog now we can perform delivery within just a couple of hours once the sale is concluded.

So the main point of delay is credit card security. Once the credit card is approved, then we are ready to deliver in 30 minutes, 60 minutes tops depending on where or how far the customer is nearest from our mini hubs or stores. And also a significant improvement in 3P, we gained the ability to operate 3P logistics and being an option to our marketplace.

And with that, our freight chart, remember, we performed two deliveries per second. So our freight chart is very well negotiated and we gained the ability to extend this chart to the marketplace with a huge benefit in cost reduction. So that's another reason for marketplace to be close to us.

And we also have the condition to use our mini-hubs to serve marketplace, having AsapLog coordinating everything. So there is a strong evolution performed by the company, a strong digital maturity and many things to come along.

So now I'd like to open for the Q&A, and we'll be here for your questions.

Questions And Answers

Operator

(Question And Answer)

Now, we'll open the Q&A session (Operator Instructions) First question from Victor Saragiotto from Credit Suisse. Victor Saragiotto?

Q - Victor Saragiotto {BIO 19504427 <GO>}

Yes. I would like to start by asking a question to you, Roberto, regarding the e-commerce performance. In the beginning of the call, Roberto, when you talked about May, it looked like you -- you talked about a figure, but I couldn't understand very well, I got disconnected. But if you can go back and comment about the performance in May, thank you very much. I would appreciate. And second, about your e-commerce. The e-commerce grew a lot at the end of the first quarter, and it's accelerating over the second quarter already. And if you can talk about that profitability, what was the behavior of the profitability? Was it better or not? That would be great if you could comment on that as well. Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Okay. Victor, thank you very much for your question. Well, I talked two things about May, I don't know what you missed. About May then, the number of monthly active users that went up to 12.5 million users. We ended April with 11 million and -- and May, we had 12.5 million on May 12th. About May also, I talked about out May sales. With 80% of stores closed, we had sales up to Mother's Day, which is among the three best dates in the year. We already had 10% over May of last year. So, if we compare to last year, the whole company with all the stores open and the online working, so up to Mother's Day of this year, we had 10% extra sales in 2020, of course.

About the e-commerce margin, what we are seeing right now is that, obviously, this is not the same margin that we have in the brick-and-mortar world. But our online margin is better than the pre-COVID online margin. So, we are tapping into all those benefits that the Company has in terms of volume of negotiation as well as pricing, which we already started adding intelligence in our pricing. And we have a major progress over the year with a lot of analytics dedicated to pricing as well, but we've started tapping onto a part of that. So, we have an e-commerce margin that is better than the margin coming from e-commerce pre-COVID. And also relevant here to understand what's happening to the company that is already having 80% of its revenue in the online, but 65% of our expenses are variable, and most of those expenses do come from brick-and-mortar stores. A relevant share of expenses are coming from physical stores and these stores are closed. So, several of these expenses are not there. And some of the expenses, for instance, we were able to renegotiate such as lease.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Perfect, Roberto. Thank you, and congratulations on your performance.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Victor, were you able to hear everything? We did have the information that there were moments where we had disconnection. Okay. Let's turn to the second question. And I will ask again if everyone was able to hear us.

Operator

Our second question is from Bank of America, Mr.Bob Ford.

Q - Robert Ford {BIO 15127836 <GO>}

Good afternoon, everyone. Roberto, congratulations on the results. And I was able to hear everything. The gross margin improved better than what was expected. What is behind that? And what do you think about the gross margin from now on? And, also, can you tell us about the relationship with suppliers and the support that you had for closing your stores? And how do you compare that level of support to the rest of retailers?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon, Bob, and thank you for your questions. Well, gross margin relates a lot to the mix renovation. So, over the second half of last year, we had out everything that was not a winning mix. We burned a lot of inventory and also the strength that this company has. The commercial team is very strong, this is in our core. We have a long-term relationship with the industry. So, starting in my first call, when I got here, I told you that we would quickly re-establish all that. We do not have a monthly view or a quarterly view. We do have a long-term view.

Considering the volume that we have, yes, we do have the possibility of having a favorable condition. And also related to the intelligence that we have as far as pricing is concerned and our online category also, all of this together brings the margin that we see right now. I think that when the stores were closed and when the market understood what was going to happen, we had different types of actions coming from the Brazilian retailers. Some of them closed the DCs, some decreased receiving volumes, some of them received and postponed payments, and then they brought the industry back to prepay and charging a rate for that. We have seen everything. But we are following the same absolute transparency line of action that we have always had.

It was the end of a quarter for some of the industries. We had our receivables 100% open. So, we did not hurt any of the industry in their quarterly. And we have -- it's a great understanding that those that would have a good level of inventory in this crisis would gain share. And, also, those that would come out of the crisis and had a good share of inventory would be winners as well. So, when we look at isolated margins, those relates to the partnership and the relationship that we have between Via Varejo and the other industry players. Of course, some days are more difficult, some days we have antagonist interests. But we do have a single interest, which is to move a large volume of items. And we always get to that common interest to close our deals. And I think that's how we got the great benefit.

Q - Robert Ford {BIO 15127836 <GO>}

Thank you very much once again. Congratulations.

Operator

The next question is from Richard Cathcart, Bradesco.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

Good afternoon, everyone. I have two questions. The first about logistics. Last year, (Technical Difficulty) where you are (Technical Difficulty) the release a target public of 85 million people, which is quite considerable. Would just like to understand the next step. In order to have this target public of 85 million people, are you working on further (Technical difficulty), for instance, a program -- cashback program?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you. The 60% that we mentioned via Varejo Day was already surpassed for 48 hours. If I'm not mistaken, it happened in the middle or early first quarter. We are already in that phase. So, we already hit the target. And now we have further challenges with the arrival of ASAPLog who were to further strengthen delivery within 24 hours and within hours. So, that's our next big challenge. And we already started to work on it. We moved from 47% of 48-hour delivery to 60% of deliveries within 48 hours, and it keeps on growing. As for banQi, we're not going to give a lot of detail, Richard, because there is a big strategy behind it, and we're still setting it up for banQi. Actually, it is already prepared. We are working on it right now. And we intend to give more detail about banQi in our next call. If we say a lot right now, maybe we're going to give equipment to our competitors about our strategy.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

Thank you, Roberto.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you.

Operator

Guilherme Assis with Safra has the next question.

Q - Guilherme Assis {BIO 21406331 <GO>}

Good afternoon, everyone. Thank you for taking my question. My question is about marketplace. The plan is very clear, the investment that you made is clear. Maybe, Roberto, you could mention the current status about the number of sellers? I know it's clear that the investment entails a capacity to increase or onboard 10,000 sellers per day. How do you see this evolution? I think you mentioned that it depends on the company's strategy. The idea is to bring partners first, improving the mix. But when should we expect to see this or how should we expect to see that in the future? So, how many sellers do you have today? And what is the plan of growth in the seller base, so, to some extent, we managed to quantify in marketplace. So, that's one question.

And the second question has to do with your relations with suppliers and inventory management. We can clearly see, based on the results and margins and sales, that you really managed to make improvement to your inventories and partner with suppliers, which was of great help in this period having this great market share. What about the future? If we consider a scenario that is so uncertain, the economic activity data is so uncertain, so what about your strategy when it comes to inventories and suppliers? Also, bear it in mind that you had a plan to lower the amount of credit with suppliers. And I believe that, today, you are counting more on these credit lines to overcome the crisis. If you could comment on that as well, it would be great. Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Guilherme, thank you for your question. Let me begin by addressing marketplace. We have approximately 7,000 sellers today, 3.5 million SKUs approximately. And based on this improvement that takes place in the platform, that will happen within the next 60 days, then we'll have conditions to have exponential sellers in-house. So, like I said, we don't believe that seller volume is the answer. Our strategy is, let us go for the best sellers in the market and invite them to be in our business. And to use our traffic, our payment book operation, our image, and our logistics in order to help sell their products. We don't intend to open too broadly and freely. We want to assure quality. Because at the end of the day, the fail to deliver or a bad service provided by any seller will ruin our reputation. So, we gain the ability to scale up and we make assessments. We don't have a fixed number. That's not a metric. Our metric is to have a strong growth in GMV, sorry not 10,000 sellers per day, but per month, my mistake. And that's what we'll manage to do once we improve our platform, 10,000 sellers per month.

So, we're not going to set a seller target. What we want is to increase our GMV from everything that adds to our business, improving the level of service to our consumer, to make sure we have a stronger relation with the consumer and the greatest increase in our customer base. So, that's what we'll be pursuing with marketplace. Please bear in mind just an additional detail. We are going to improve our ability to have marketplace being sold by our more than 20,000 sellers in all our stores. I would say, it's a humanized and boosted marketplace. In addition to have more onboarding, we'll also have all our sellers in transit and also with the ability to perform via payment book unlike any other player.

As for supply, we keep on working on replenishment. We are selling a lot. So, like I said, in April, we performed something around 90% and, in May, we are above last year's rates. And the supply cycle is effective. It's a normal supply cycle. So, very strong in the volume of supply with several industries, they are supporting us. We had been going down our risk pre-crisis because we were generating cash. But now, we are using it again, because we believe it makes sense to use all our options -- credit options available in the market. So, this is normal now with the industry. Our SKU replenishment is also normal. We keep on replenishing our inventories as soon as we sell. Thank you.

Q - Guilherme Assis {BIO 21406331 <GO>}

It's clear. Thank you very much.

Operator

Next question from Mr.Joseph Giordano, JP Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon, everyone. Hello, Roberto and Padilha. I hope you're doing well. My question has to do with the adaptation that the company has -- may -- it was very fast. I would like to understand, how these new relationships went? The new relationships that the company had to develop on the 1P side to work on a potential change. And how do you see the mix change in this online demand? And what is the behavior of this process, both in terms of tickets and frequency. I would like to understand that. And how that changes the cost of service? And, also, I would like to talk about the significant traffic increase. And it's nice to see how much of that came from an organic approach. Accelerating marketing was helpful as well. So, I would like to understand what is the phase of this organic growth?

And, finally, on the direct consumer credit. Maybe that's a question for Padilha. I want to understand how your provisions work when you have to postpone an installment? I understand that, technically, there are no delays. But I would like to understand if there is a provision because of an incremental risk, considering that you leverage a little bit part of that credit? Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hello, Joseph. Thank you for your question. So, the performance of the mix as -- just as we put that together and we are working with our team for the digital and tech areas. We also are working with our online commercial team. We had that team ready since the third quarter of -- at the end of the third quarter of last year. We had something here and there coming in, but our base was already consolidated there. So, I would say that we were preparing our assortment, our long tail of 1P, everything that we have here in the 1P.

And in terms of ticket, I can tell you that we have lower tickets, yes, but we have a lot of high tickets. So, on the online that we had in the past, we already see an important progress of our online average ticket, because we improved a lot the assortment of higher added value, which was not a strong point in the past. And let me give one example that is easy to understand. We are the largest sellers of Apple products in Brazil, the largest iPhone sellers in Brazil, and that had gained a lot of traction in the online lately. This is a very high ticket. So, we do not have a huge degradation there. And we are not having strong promotions in terms of freight. We have a good freight revenue, I would say. So, sales -- we don't have any expenses to -- with sales. This would be very healthy for us. Since we understood right in the beginning that we are going to grow a lot in the online and that we are going to improve our penetration, we prepared our online operations so that they could be profitable to the company.

Now, in terms of traffic, what I can tell you is that we have improved a lot, really a lot in our ROI, our return on investment. While we switched the rulers of our CRM and when we increased the use of app, then we are gaining quality because of that. And the quality in the traffic management, there's a lot of intelligence applied to it. And we intend -- and that's going to depend on our strategy. But if I look at what we are gaining in terms of capacity, there was a trend to do much more with much less in a short period of time.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Joseph, I know there is another question about the direct consumer loan, very technical. And this is very good, because it helps me in this education process of what is our credit operation and how we can read this operation correctly. So, the first observation is that we are very different from banks. We have a provision load in the beginning of the contract, considering the historical risk of the average of those contracts, of that average risk. So, it is a very complex process. And this provision is made in the beginning, not during the contract. Second, technically, that installment, that was postponed, is going to go to the end. So, it is going to be the final installment. So, it's the last installment in the contract.

Another important topic is that we monitor the -- our receivables all the time. So, as we have shown, we had 6% of the payment book being paid via bank and 94% of the payments were done in the store. And when multiplied by 10, the whole receiving process via online and via bank as well and any bank option, bank apps, and also our super app, which is banQi. And we also have improved -- and let me just remind you that 60 to 70 days ago, we hired a new head for our credit operations. His name is (inaudible). He's worked in Itau, Santander, and he -- really, he is making a huge difference in our credit operations process. We also have a new collection professional. And all the process, all of that -- what -- all of this started in the beginning of the pandemic. So, just as we made a lot of changes in our commercial processes, we also improved our collection process. And so, customers today can have a good service. They can renegotiate the contract automatically. We have also new collection companies to collect past due accounts. But the level of receivables for May is between 30% to 40% better than April, which was already surprising. And that makes us believe that, at that level of payments, we will not have any pressures on top of our ADA, which is already posted in our balance sheet. Basically, that's it.

Q - Joseph Giordano {BIO 17751061 <GO>}

Perfect. Thank you very much to both of you.

Operator

Next question from Mr.Ruben Couto, Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

Good afternoon. I would like to go back to gross margin. Just to try to understand Padilha the comments that you have made. Taking into consideration the non-recurring factor in the first quarter that you just mentioned with the e-commerce increase and possibly with the lower contribution of credit operations as e-commerce is gaining share, can you expect that the gross margin is going to be in that level of 30% in the next quarters? And, also, about marketing expenses. I think that you're changing a little bit the way -- that you deal with traditional media. Can you tell us how this is working your marketing expenses, if you are working differently there?

A - Orivaldo Padilha {BIO 21118157 <GO>}

I'm sorry, I missed the marketing. I could not understand the end of the question.

Q - Ruben Couto {BIO 20636571 <GO>}

Yes. Let me repeat. With the online channel growth, you are reviewing how you spend with marketing depending on digital media, traditional media, or even the presence of traditional media is also important in the growth of this online channel. I would like to know if there is any room for efficiency gain here.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Okay. Thank you for your question. Well, the first question about the margin. We are -- I think we already understand what is the margin of this company. For the past two quarters, we are working on it. We cannot provide any guidance ahead. But what the company is executing in terms of margins provides you a good visibility of what is going to be the reality of this Company.

In terms of marketing investment, the company used to have a strong investment on the top of the funnel if we analyze the online segment and would invest a lot in the moment of truth, in the conversion moment, at the moment of conversion more than in the top of the funnel. So, we started accessing customers in all of the funnel stages. So, we are improving that right now. And we're associating that to us here with the customers that visit us and that searches on our app and our website, and all of that is improving our conversion. So if we look ahead, I think it makes a lot of sense. And I would say that we'll keep on reinventing ourselves. And also, in the media, we are going to analyze what is more productive to us. And as our CRM, our data intelligence gains more traction, I would say things are going to be even more obvious to improve our conversion. So, I think we have a changed perspective on how we do it.

Q - Ruben Couto {BIO 20636571 <GO>}

Yes. Yes, I understood. Thank you.

Operator

The next question is from Tobias Stingelin with Citi. Tobias, please go ahead.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Maybe we can move to the next question. And if Tobias arrives, we can answer his question later.

Operator

The next question is from Andrew Ruben with Morgan Stanley. The question, in English.

Q - Andrew Ruben {BIO 20391468 <GO>}

Hi. Thank you, and hope everyone's well. Two questions on stores. So, how do you think about the store base from a strategic perspective? And how strong you're online if -- could you need fewer stores going forward? And then, on rent, can you talk through some of the negotiations both for these months and, perhaps, any longer-term changes, reducing rates, or moving to any variable structures? Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon. Thank you for your question. Firstly, when it comes to brick-and-mortar store base, I think we're going to revisit many things as a company, there are many lessons learned. We used to have an outlook of expected speed in the digital transformation. And we gained many months in just a couple of weeks. So, the answer is, yes. Yes, we may revisit. And as a reminder brick-and-mortar stores for us were not only seen as a point-of-sale for us for a while, but also as an online relation point for logistics purpose, last mile, Click'n Collect. So, yes, we'll definitely work on a strong assessment of the whole combination in the coming months.

As for the cost of the store, in my opinion, we managed to have strong re-negotiations for the times in which the doors of our stores are shut and with more than 80% of the properties, both related parties and also third-party real estate. And we understand that once the pandemic is over, there is a chance of having a surplus of good points of sale in good markets. So, we had a plan to expand in markets where our footprint with brick-and-mortars is not so significant. Maybe, this is going to be more inexpensive and maybe even our store complex can also be cheaper owing to this new moment that we may live post COVID crisis. So, it will largely depend on what happens the day after the crisis.

Operator

Our next question is from Tobias Stingelin with Citi.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good afternoon. I hope you can hear me now. Roberto, you said that you increased 10% in May despite many of the stores were shut down. What about the evolution in the market? And what about the market share? So, if you could give us more color about the evolution, it would be great. And congratulations, again.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Tobias, good afternoon. We don't have the market share number for May. But if we consider the past trend, we understand that there is still potential, growth potential -- strong potential for market share gain, right? 80% of the stores are shut. So, with those that are open plus the online operations into Mother's Day, we posted growth of 10% in the sales of merchandise year-over-year.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you. Just another question. Considering you are growing despite so many stores shut, I believe most of online growth comes because retail is closed. Based on the previous question, what will happen to the total number of stores? Maybe you don't need 1,000 stores? Maybe you can have only 700 or 800 brick-and-mortar stores as a hub of distribution. Maybe you won't need so many stores. What about that in the future and the growth?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you, Tobias. We are pondering a lot about all that. You're right, there are opportunities that are already visible to us. And I also believe that we can face even more opportunities. And the fact that the online seller is still operational today, it makes us believe that not necessarily they have to be closed in one place or another. So, we will have to reassess everything, Tobias. We are going step-by-step. And if there is an upside of the crisis, it's that it gave us the ability to do at all within four or five weeks. And not only that, there is a significant part of our sales that is taking place, coming from new customers in our base, customers who were never with our brands, neither brick-and-mortars, nor online. So, we have a new share of customers, possibly customers who came from our competitors, and also a strong increase now that we help our customers go more online. So, we have a very big level of loyalty from these customers online now, the first assisted online sale we never forget. So, it's a little bit of everything, Tobias. I know this is not conclusive, because we are right in the middle of the whole circumstance. So, we are reassessing, and the simple answer is, yes, there are opportunities.

A - Orivaldo Padilha {BIO 21118157 <GO>}

May I just add something. Tobias, if I may add to the comment about expenses, for instance, in March, the company did not use very well, because many decisions on expenses were not made until mid-May for the federal government issued this provisional measure, then there was another discussion. And the company decided to make use of this possibility, of this new rule in order to have a big share of the company with labor contracts on hold. We had already used vacations, our bank. And in this case, the company assures 70% of the employees payment. And this can be used as a fund for compensation. So, there are no social charges, no taxes and, at the end of the day, there is a significant reduction in the cost of labor of the company.

The renegotiations of rent and lease also bring significant sales -- savings to us. But that's month-on-month. April -- May is still open. Negotiations are still taking place. And we're also considering the structural expenses of the company. And in a couple of days, we had 100% of our office as home office. And we're also considering a structural reduction with gains of opportunity. Everything is digital today at the company meetings, documents are all digital, digital signatures, reducing red tape in bureaucracy and, therefore, bringing significant gains in terms of structural expenses. And we'll all capture that within the coming quarters.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Now just adding, Tobias, just highlighting again, we have a strong concentration in the Southeast. And we were still trying to increase our footprint in the north, helping with online logistics. So, there are opportunities downwards and also upwards.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Great. Thank you very much. And congratulations, again.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you.

Operator

Next question from Ms.Daniela Bretthauer from Eleven.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Good morning, everyone. Congratulations on the results. Amazing, this progress of the digital maturity of the company. I would like to go back to what Padilha just said for my question. It's very interesting that, really, you had very few days to benefit from the measures announced by the federal administration. So, I would like to focus on expenses, because not only sales expenses have increased a little -- or little, not much with the pandemic, but also general and administrative expenses dropped 11%. And if you have not had the benefit yet, maybe in the second quarter, you will have a better operating leverage considering that sales, as Roberto mentioned, are going very well and even better and despite of having the stores closed. Is that correct? Is my train of thought correct, Padilha?

A - Orivaldo Padilha {BIO 21118157 <GO>}

Yes, you're right. Obviously, the margins are lower on Internet, although we are being able to have better margins than in the pre-COVID period. But expenses related to those sales also are lower. So, the company is working on it. And we are very much dedicated to that, to work on labor provisions and different types of provisions and a whole block of expenses. This has started six, seven, eight months ago. And so, now we start seeing the benefits, Daniela. And further on, I believe the benefits will be even higher. And the company is very much focused on bringing down lawsuits -- labor lawsuits and also consumer lawsuits as well. These were much higher than our competition, and we have been able to bring them down. And I believe that these expenses will be even lower more throughout 2020. And it's being distributed among the sales expenses, especially those two, and also administrative expenses. But these are the two main expenses blocks that we are tackling here. And these two expenses have a lot of relation to the operating improvement of the company. They are related to the number of people and the quality of the work all the employees have here and also with customer satisfaction. So, I would say if these two elements improve, the expenses will come down.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Perfect. Thank you. So, the fact of expenses had a slight reduction as a percentage of sales, right, of around 22%, maybe a little bit higher. But you probably have room to reduce it even more from now on.

And now, something else that I would like to talk about. That line of other operating expenses also dropped a lot, especially vis-a-vis the fourth quarter when you had expenses related to that investigation and so on. So, currently, 0.9% of sales, do you think that level of BRL 50 million, BRL 60 million is reasonable to forecast whether or -- to work with from now on? Or do you still have other expenses there? I was not able to identify it. I don't know where you allocated expenses related to COVID, in the stores you have already opened, in PPEs, that type of thing, the additional expenses.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Well, these expenses are not reflecting in March yet. They will come up starting on April. Yes, there is room for reduction. I cannot provide you guidance here. But the trends of the company is to clean out those past effects. So, quarter-on-quarter, we will be reducing that up to maybe the end of this year, beginning of next year, not having anything else on that. These are older accounts. The company has an accounting policy that includes -- the costs of store renovations are posted like that. We are maintaining that policy so that we can have comparisons done. But these are expenses that we highlight under no specific accounts to adjust our EBITDA, a fact that happened one, two years ago, which expense will happen in the current quarter. And that's why we leave it as it is. But the trend is to have that disappearing.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Yes, thank you very much. And once again, congratulations on your results.

Operator

Next question from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon, and thank you very much for taking my question. I have two final questions here for Padilha. Can you comment how we can think about the financial results line for the rest of the year? Obviously, the first quarter had a relevant increase year-on-year. And I would like to understand how this should behave for the remaining of the year. And second question about tax assets, if you have any debt line, a specific timing about monetization of those. Thank you.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Hello, Irma. Good afternoon, and thank you for your questions. I think that we can understand as a right result, the one in which I bring to you the adjusted quarterly result. Of course, there was a lot of pressure because of the bank spread increase. At the end of March, we accelerated the receivables discounting to increase the liquidity of my cash position. We are already at a normal stage. We do not have the pressure of the market to have discounted receivables, which we had in the beginning of the pandemic because we don't need to have such -- so much liquidity in our cash. So, we're not going to have as much pressure at the end of this quarter as I had at the end of the first quarter. So, it's correct to say that the level of financial expenses should be the one that you find in our adjusted quarter.

About monetization, that is very relevant. This is a relevant aspect of the company. We have a lot of cases of operating improvement that do bring benefits, a lot of agreements which states that also their benefits. During the quarter, we also had small victories in our judiciary -- with our judiciary that provide us gains regarding credit monetization. This is a very controlled account in the company. We did have the objective of providing liquidity. We do have that objective. We talked about that on the Investor Day. Our monetization curve is of around seven years. We maintain that. We strengthened the company's structure. The company did not have any specific area or a department to manage taxes. We hired a professional from the market with 10 years of experience coming from a large tax company. And, therefore, worked with -- we worked with a hedge on the subject. This also has to do with the operating transaction of purchases and selling. So, we also added a tax intelligence, along with the commercial and logistics areas so that we always could see what is the best possibility to buy, what is the best origin for the purchase, and what is the best destination for that purchase and, within the company, what is the best destination for the sale as well.

This involves a lot of complexity. It's a daily work, and it happens in the commercial dynamic. And it is highly related to processes that increase the Click'n Collect. So, that increases our revenue for tax ID numbers of the stores and also improve the tax conditions of the large DCs. They do not accumulate credit by tax replacement starting a few years -- a few months of last year. So, the whole stack of activities with a lot of focus, especially related to our trading area in the company, that allows us to believe that we will be well succeeded in the monetization process. But considering the company is very large and we do have complex process, almost every quarter, I have gains or losses related to that. And that is the legal nature of some of the counters. And that's the only reason. But that's a very relevant topic for us now. And we believe that within seven years, we will be able to monetize all our credits.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay. Thank you very much.

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

Good afternoon. Thank you very much for your questions -- for taking my questions. I increased 10%, including Mother's Day. And do you have an update for April? Do you include Mother's day or not? I don't know if you have an update for April as well. Can you tell us about that?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon, Gustavo. Thank you very much for your question. What we said was that April of 2020 compared to April of 2019, we had 90% of sales, yes, 90% of sales. For May up to Mother's Day, we are already gaining 10% vis-a-vis the same period of last year.

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

Are you including Mother's Day?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

[Interpreted] Yes, yes, the Mother's Day event.

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

The other question about these over 200 stores that you've opened, you said that sales are 100% of what they were before. The traffic is also the same. Or are you allocating part of your Internet sales, the Click'n Collect? Are you allocating that under those sales as well? Because I've seen that some retailers, the flow is not changing. The traffic is not going back as fast as -- that fast. Some stores are not having much traffic.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Yes. We do have a reduced traffic compared to what it was, but conversion just peaked. So, these are customers that need to buy. So, that walk in the store, we have that less. Of course, the customers that would really need it, they go and buy online. So, the feedback is that those that go in the store because they really need to go to the store, they are following all the protocols, social distancing, they're wearing mask when they go to the store. So, this has been nice that the reopening is working well.

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

So, the selling of credit operations and services, and they have a high margin. So, they -- are that normalized at the same level as we had before? So, the impact of the gross margin is on the e-commerce mix having a margin that is higher or not?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Yes, that's the impact.

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

And a final question. How do you -- how are you running the new negotiations with suppliers? I know that you had strong sales in 1P more than 3P. Our exchange rate, is anyway there. So, in the other call, you said that you had inventory up to June. So, I would say a negotiation shouldn't be far ahead, right? Can you tell us more on that we have?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

We -- as I said, we established a long-term relationship with the industry. So there are a lot of things that we already have placed in terms of volume. And what I can tell you -- and I think that at the end of the day, your question is, how is the FX impacting the Via Varejo?

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

Yes, I think so, for the third and fourth quarters, right?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

] Well, I think that, by far, we are not going to be the first ones to suffer any impact because we are very well positioned and we have a good level of inventory. So, the risk there is to have the competition receiving increases. We don't want to bring the market down. And so, we might have inventory levels positioned at a good dollar rate, and the competitors will have to raise price as necessary.

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

Okay. Thank you. Thank you very much.