

Q2 2020 Earnings Call

Company Participants

- Orivaldo Padilha, Vice President of Finance and Investor Relations Officer
- Roberto Fulcherberguer, Chief Executive Officer

Presentation

Operator

Good afternoon, everyone. Welcome to Via Varejo's Conference Call to discuss the results for the second quarter of 2020. This call is being broadcast via Internet and the slide selection will be controlled by you. If you want an English version, please refresh the link for the download. The questions will be answered by the -- the analysts' questions will be answered, and the journalists should talk to us via email or via our website.

Before turning the floor to Roberto, I would like to say that the forward-looking statements made during this conference call regarding business perspectives, projections and operating and financial goals are based on the beliefs and assumptions of Via Varejo's management and on information currently available. 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, we have Mr.Roberto, CEO of the company; Mr.Orivaldo Padilha, CFO and IR Officer. And so now I would like to turn the floor to Roberto.

Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon, everyone. I would like to thank you for being interested in our company and for being with us in this call. I hope that all of you are doing well and your family also. And to start, I will give you a brief overview who we are at here at Via Varejo. Regarding COVID, we are taking all measures needed to keep the good health. We already have 2,017 stores open that is 95% of our stores. Both our stores as well as our logistics are following strict protocols for the safety of our employees as well as customers. In our headquarters, most -- 90% of people are still working remotely in their homes. We do not have a date to go back and we are not in a hurry either. We adapted really well to this new way of operating and we are very productive with this remote working. As I said in our last call, with this huge change that we saw in the world, the winners are going to be those that adapt faster. And we are performing all needed adaptations to our business, whether for the current moment or whatever comes ahead.

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Now talking about our second quarter and I'm not on the presentation yet. This has been a very challenging quarter. And it was extremely transformational for the whole world and especially for Via Varejo, I believe, it was even more transformational. And before starting, I should thank some people first, really a huge thanks for Via Varejo's team. It's a great team. It's amazing to see their resilience and capacity to adapt as well as the passion that they have to serve over 85 million customers. So thank you very much, Via Varejo's team. I know that many of them are here this afternoon.

I also would like to thank all our customers, whether -- all these clients, the ones that we have for a long time or the other ones that are just checking our apps and our digital platforms and really enjoyed what they have seen and ended up staying with us. And it is really a privilege to be able to serve you all. We'll do everything we can to keep these new consumers in house. And I also should thank our 444,521 shareholders. And probably all of them are our customers as well -- are our customers. Thank you for believing in our company and in our capacity to carry out the largest and fastest digital transformation of the Brazilian market. I think that the figures that you will see this afternoon will make you very pleased. This is our fifth call. And I believe that the market already had the opportunity of getting to know us better. So I want to stress some of the messages that we have (inaudible) you since we started. And I would like to reinforce them to stress them.

First, we are strongly committed to the coherent governance in all the decisions that we make here at Via Varejo. We will always be looking for very fast progress, but in a very consistent way with a lot of transparency, both in our transformation as well as in our results delivery. I think the consistency and transparency is something that we have been repeating since our first call. And as we deliver in every quarter, it is more clear that we do have that commitment, and that is it is coming through. We are in a transformation phase in the market today. A lot of people talk about us. We are a democratic company. You can see the number of shareholders. We are inclusive, not only in terms of the team that is here or our customers, but also in the stock market. So I think this is a very nice.

And every quarter, we have been improving the level of information that we have here. So that everyone can have a better understanding of what is this company and also the potential that the company has after a year. And I think all of you can see what we have delivered. And it is very clear also to see the consistency of this team. We are not here to win a soccer match. We are here to take the world championship and that's what we want. Via Varejo is ready for that. And we are also preparing ourselves for that competition. We do respect our competitors. And I can say that Via Varejo was not taking all the room, all the space that it was ours, but we are doing that now. This is the long-term journey. I want you to have that very clear. And in spite of being a long term journey, we are very determined about (inaudible) delivery. We want to take Via Varejo and Via Varejo is already there, but we want it to be even more the way where people buy, all Brazilians, where, how and the way they want it. We are going to go after consumers, we are going to have this relationship with consumers to pay they want.

So now turning to page two of our presentation. We think it's important to say who made this transformation of Via Varejo. Who transformed Via Varejo in this digital giant, which we already are? We just carried out a survey in-house and the results are just out. We are

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today 41,000 active employees. The average of age here is 36 years and the average time at Via Varejo is around 5.4 years. 47% of our team comprised by women, 53% men, and we have 53% of our team and the leadership of the company, we consider the leadership here since the coordinator, a lot or all of them are in leading positions in a lot of our stores. Remember each one of the stores is a company in itself. And we do have seen a lot of the stores and these 53% in leadership are of women. So we are following Brazil's path. Brazil has already more women as the head of the house. And I think we are very well represented here. We have over 2,000 disabled people working here and 1,750 apprentices that do engage in our culture, and we have everything to write a beautiful story with these apprentices, and they can (inaudible) in the future.

What we are looking for here is to have a huge diversity. We want the Brazilian society to be represented within Via Varejo. Therefore, we were a good talk to society, to Brazil, and I do believe that we are on the right track. We still have a lot to do, but we are in an expedited path and in a very good trajectory.

Turning to the next page. I think that, and once again, stressing this. So we are purchasing for every Brazilian, wherever, whenever and however they want. This is the reality. This was a very challenging quarter. We have seen over 80% of our stores, actually, 100% of our stores were closed. And we were able to serve consumers where they wanted to be served. We were able to quickly migrate our sales to the online channel, but (inaudible) how that performance happened on a monthly basis in the quarter. And it's amazing to see how fast we were able to do it. We have total GMV of BRL7.3 billion, considering that out of these BRL7.3 billion, BRL5.1 billion came from the online GMV. And this is unprecedented; there is no way that a nondigital company be able to have such a high GMV in the online channel. So we are very pleased about this result and even happier about the quality of the result on the next page.

Now looking at the highlights, well again, I will repeat myself, we have BRL7.3 billion total GMV. And out of this total, 70% was in the online channel. The online makes up for 100% of lost sales due to the lockdown. So we more than made up for this GMV. And I think that with the pandemic and showing our capacity to quickly adapt, we created the Text Me on WhatsApp. And this is a huge success. It became a worldwide case at Facebook. And I think other retailers will follow the same trajectory. Talked to some of them and did transfer knowledge. This is an important moment for retailer, people needed to find a way to maintain their revenue and we did play that role. That sale represented 20% of GMV in the quarter. And given the over 1,000 stores already opened, we are still going very strong on the Text Me on WhatsApp. We're already in the third generation. We are ready to go to the fourth generation of that and we are able to have over 20,000 sales reps become online and digital.

So to the right, we rose 280% in the second quarter of '20, vis-a-vis the prior year. And if we do not consider, or actually, if we considered June alone, the growth was 365%. 1P we have grown 311% in the second quarter and if we isolate June itself is 422%. In the 3P, we grew 180% and over 211% in June. 3P -- for 3P we have a huge revenue growth. We're just starting our marketplace business. I will talk more about that. We have exponential growth in the number of MAUs. Remember, when we got here a year ago, we took the company with 1.5 million monthly active users in our app. And today, we have concluded the second

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half of the year with over 15 million active users. This is a huge growth. And this is all in a sustainable fashion. And I will be using this word sustainable a few times because there were some questions. When we focused and disclosed the numbers, people asked about how sustainable was this growth. And I will show you that this is absolutely sustainable. And on the contrary, we did gain margin in this period of time.

On the next page, I think that this is very clear. Our quick and accelerated digital transformation, it already happened at Via Varejo. So we start share of online and a GMV of 12 -- 18.5% in the second quarter of '19 to 70%. Of course, this was driven by the pandemic, but it will never be level where we were at before. And plus the stores now over 1,000 open stores, our online business is growing at an accelerated pace. So even with the stores open -- reopened, these stores are selling very well. Even then, the online growth is still accelerated in this current period.

So the GMV 1P growth that from a negative number last year to 311% in the second quarter now. In the GMV 1P plus 3P growth, also we had a decrease in the negative number. But also, we went to a growth of 280%. And here I think that's something that can be very enlightening for all of those that had questions about how sustainable was the sales growth of Via Varejo. Our gross operating margin that is we do not have any recurring impact, in fact this is life as it is. In our operating margin, we did 27.3% in the second quarter of '19 to 30.7% in the second quarter of '20. It is much higher. So we did have very significant growth in the online channel without burning money, without damaging the company's profitability, very much of the contrary.

But we'll show you the breakdown of our gross margin and also the (inaudible) in terms of margin on the online operation in the second quarter. And this gain is here to stay. We already have that integrated. So the number of monthly active users went from 1.5 million to 15 million. The monthly online visits we had 73 million in 2Q '19. Now in the second quarter of '20, 187 million. And the number of sellers went from 4,700, now to 6,000 sellers. So we have no problems at all to bring in sellers to our platform. We did have a problem on the platform itself, but we were able to even accelerate it on the sellers. This has been a lot with the new platform and we should grow in the onboard. There are a lot of sellers that wanted to come in, and we want to take advantage of all this traffic that we are generating. This has gone -- so bringing in a lot of right prices, 1P, (inaudible) 3P, and the other way around as well. So we are in a very fluctuating trajectory.

So on next page we have the app use. It shows the consistency that we have been having in the growth of monthly active users. (inaudible) it was 1.5 million in September. That's why we adjusted the platform and its products. Accelerating the online business, we have been getting 3 million users per quarter, basically 1 million new users a month in a consistent fashion. And what happens was that with the pandemic, we ended up having 7 million users more in this quarter. But once again, we do not have product (inaudible), and we are (inaudible) in a very consistent fashion, whether of the customers that we already have in Casas Bahia or the new customers that are coming in that are trying what we have, that is how they like it. And we are working hard on our CRM with all the daily intelligence that we had gained to maintain, to keep these customers with us. 32% of our sales already come from our app. It was 12% last year. 34% is via Msite. We already (inaudible) we are getting a lot of traction in our app. We had promised a new app now

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and we have a (inaudible) we promised new apps in (inaudible). So we already have Casas Bahia app up and running, better visibility, better search and checkout and the product shows. So it's totally renewed with the top technology.

Turning to the next page and talking about marketplace. We are just in the beginning of our journey. I should think that there is nothing that exists today in the market in terms of technology for marketplace that we cannot have here. The technology today is affordable and faster and just check what we have seen in terms of transformation of this company in the past year. So we quickly gained traction in the marketplace. We are going to use all this power that we already have in our service for the meaningful flow, and we will have all our sellers or our sales reps selling 3P products. Our credit operations also will be for 3P products as well. And our logistics will be at service to 3P as well. We get a lot of traction. And this is already robust growth. We have almost BRL1 billion of GMV the marketplace, but there is a lot to come. The journey is just in the beginning. So we're ready to have 4.2 million of SKUs in our marketplace. And we have a lot to happen from now to the end of the year.

On the next page, talking about margin and inventory. And our last goal is that we have the right decision of keep on receiving goods and merchandise when the pandemic started. This was the right decision, no question about it, that is related to our core business. (inaudible) This is in our DNA. So we have 100% of our inventory that is retail. This also helped in a margin increase. We kept receiving merchandise; we are maintaining our balanced inventory levels. Although, we have a stock out here and there. Maybe there was not enough shipping in the retail lead time, but we are very well planned as an industry. Also the omnichannel integration is helping us a lot. The (inaudible) logistics, the way they can in all areas, they can and a strategic execution or pricing. This is a competitive event. The people want to come in this pricing mode, but we have an amazing team in our commercial area and they also have that in their DNA. So we are very confident about our trajectory in terms of margin and inventory.

On the next page, the payment book. This is a very traditional means of payment for Casas Bahia. We have strike [ph] relationships with our consumers. This is a very resilient system and Padilha will go into the details here. But the little of the delinquency that we have seen going up in the beginning, and it had a lot to do with not having this for to go in and make the payment. And just already adjusted itself in a very fast pace. Padilha will go into the details.

We started in the mid of the second quarter our digital payment book. So we have the same payment book that our customers already know and it's very democratic. And now that they do have a digital version, we already have our portfolio of BRL112 million to BRL120 million and this is available for our profitability since we are ramping up that by -- until the end of the year. So it should gain representativeness in our digital sales. We also increased the base of pre-approved customers. We did change our scoring model. We reviewed all of our credit engines. Our data scientists are working hard with our credit operations team, in order to help us service.

Now in the second quarter, we also increased our costs to the maximum, the way that we granted credit. So 90% of the decision is already automated, so there's an intelligence

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sort of in order to analyze and it's using our models. And that already represents that 90% of our sales credit operations. So we are in the right track. The credit operations is growing in Via Varejo and Casas Bahia, of course, and now on the online as well. So we do have path that is moving towards growth.

On the next page our tech culture. We are also very much working on increasing our tech team. We already have 1,400 developers, 120 squads and 3 tech hubs and 29 tribes. This is a very robust team and we have just announced yesterday, I think, we are opening 300 openings for our tech team, alright, in this new mode. So the team is going to work remote. So they will be hired to work on remote (inaudible). So that brings a lot of paradigm in terms of the team wanting to not be in certain places. So these new employees will be operating from wherever they want to.

And our last page we have the performance of digital network which is still accelerated. We promised a lot of things at Via Varejo that you saw Via+ when they've renewed. So it's already up and running. Our experience of the cell phones, the mobile phones in the hands of our sales reps for them to sell, this is being rolled out. We already have footprint there into states (inaudible). And by the end of the year, 100% of Brazil will have that available. The new experience, the use of WiFi, so that we can register the consumer, understand the consumer, so that our sales reps will know about consumer business, just to give the consumer the credit that is preapproved for (inaudible). So this is reaccelerated and (inaudible). So I think this is going very well with the online channel, we have the new apps, we also have the new front end. There are a lot of improvements to come in the future. And in the marketplace we are now having the new platform that will unlock the (inaudible) and we'll be able to provide accelerated onboarding for new sellers. This is going to improve our gain in terms of recurrence and also a better assortment.

On the next page, now talking about logistics. We had promised for this year 120 mini hubs. And we already have 380 of them. And with over still having a third quarter, we want to reach 500 mini hubs. So all the cities in which we need to have income, we will have that. And that is just going to happen this year already. This is a differential business, the competitive advantage that is unprecedented. Via Varejo has several sustained pillars and logistics is one of them. It really differentiates us a lot from everything else that you see in the market. I think that the barrier of technology, we already made it clear. This is no longer a huge barrier. It is accessible and fast to go over it. And now to put together the logistics structure that this company has, that's not easy. That's not fast. And to be present in most Brazilian cities with the (inaudible) for the inner cities. And as the online (inaudible) representative in Brazil today is 6%, basically on the large capitals where logistics is, but when we go inside the smaller cities in Brazil to have these 1,000 stores to serve the logistics and all does that work -- so unlock the potential will allow us to have an important advantage in the Brazilian market.

For ASAPLog, we integrated that in the second quarter. It is already active with 330 hubs - currently 330 mini hubs. It's just a matter of (inaudible). So that we can have active more mini hubs, the process is accelerated. In the 3P, we will have, as I said, we will have to visit serving more 3P sellers as well in the marketplace. And this should happen by the end of the year. It's already available today. (inaudible) they already operate in our 3P. But this all is going to be going through Via Varejo's logistics and I think we gain another important

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avenue there. And just as an extra piece of information, in the second quarter of 2020, just so you know, our logistics has processed over 5 million deliveries, with efficiency a level of over 95%.

And that's important because that has to do with our NPS. And the level that we are present also in the complete (inaudible) Via Varejo have leadership in the third quarter of last year. So you want to check it now. We are not in a position where we want to be. There is lots to be done. We are more or less 60 to 90 days of a huge quality lead with consumers' sales. But generally, we already will have the position we have this year. And there are other retail companies that are in the place where we were in (inaudible) so we're very pleased about the path we're following regarding the speed of our logistics.

So talking about our banQi business, our digital wallet that already works as a super app. We already have over 1.7 million downloads. Acceptance has been really outstanding, and we promoted the total integration of banQi in this second quarter. And then with that, we were able to share our database that banQi comes in with more (inaudible) million clients, we already have 83% growth in new accounts in the second quarter '20 versus the first quarter of the year. And if we only look at July alone, we see a 93% growth over the second quarter, and in relation to the second quarter. And with an outstanding TPV is also growing. It's growing 120% in the second quarter. We already have more than 106,000 CDC clients onboard, and we also experienced an amazing significant reduction in client acquisition cost given all of the consumer base and the information we have on our clients, therefore, it's much cheaper for us to acquire a new client, unlike what we see in the market in general. So our acquisition cost is extremely low.

Now moving to the next page. Now here we look at our capital structure. At the end of the second quarter, I think we corrected one of the major problems or deficiencies that we had, and I'm referring to the company's capital structure in the second quarter. We ended the quarter with BRL7.4 billion in the cash between cash and unsold receivables. We strengthened our capital structure with more than BRL10 billion in transactions. Our follow-on was extremely successful. I think this was the first major follow-on. During the pandemic period, we were able to capture BRL4.4 billion of the new shareholders that came for (inaudible). And with that, together with other measures that we also adopted, we were able to redeem a promissory note and the amount of BRL1.5 billion. That is a debenture of equal amount for up to 2 years that we also protect to (inaudible) BRL2.5 billion CCB up to 2 years as well. We concluded the acquisition of AirFox and ASAPLog.

And on the right-hand side, despite a quarter with great challenges, we were able to generate BRL246 million in positive cash. This is an improvement of BRL1.4 billion, vis-a-vis Q2 of '19. And we also had a final and an appeal decision for PIS and COFINS of BRL364 million. So this is very transparent because we are just outlining what is recurring and what is not recurring. But this capital structure puts us in a very sound position and it allows us to promote all the transformation we have in our pipeline. Therefore, our position is very sound, and we are ready to put all the new challenges along growth.

And now moving to the next slide. When we look at all the transformation that we already promoted, we have to then probably look at Via Varejo's next steps. All of these next steps are very well outlined. We move on, on our daily journey to improve conversion. You

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see it's the everyday or (inaudible) new operation of any online business. The Casas Bahia app was delivered. Now we are pursuing delivery over a new app for PontoFrio and Extra.com. We are also trying to launch all of that before Black Friday come November with the same visibility, with U.S. renewed and ease of navigation, and a better cart and less clicks until you finalize your purchase. Everything that is applied in the Casas Bahia app will also be available in the others. And there are still some (inaudible) improvements for the Casas Bahia app. So this involves a continuous improvement journey. By the same token, we start our pricing journey. Our tech clients are focused right now in revisiting our entire pricing journey so as to make it more intelligent. There are some gains to be captured both in terms of sales and also in terms of margins that have been captured.

Now moving on to marketplace, we are focused on a real-time onboarding of sellers. We will also very soon open to sellers the possibility of sellers having coupons and then they will manage the coupons, the discounts they want to grant inside the platforms. (inaudible), which is also Via Varejo working in favor of 3P. We are also engaged in this journey. And our journey also involves full commerce for those sellers who express interest. We can provide an integrated operation. All of these are part of our journey and these enhancements will come every quarter. So in the next coming quarters, we will gain a new company every quarter, but all of these will be improved. So we are optimizing the off-line business. The Via+ through the app and mobile will boost sales of 1P and 3P. There is a group, the modality ship-from-store. We wanted to reach 500 mini hubs in the third quarter.

Therefore, we will grow this potential, and we will focus on going that last mile based on the mini hubs, which represents very significant savings in our delivery costs. WiFi also -- WiFi is widely available to our consumers in the store. We capture the app for our customers in the store. So we can provide information to our sales reps more quickly. So if they want to go embark on a journey in our store using the apps, we are preparing our brick-and-mortar stores to be even more integrated with our online service and then vice versa.

And we move on our journey to improve against our tech culture. We will improve our Sao Caetano Tech Hub. We want it to be ready to face this new technological wave. Our policy, our home office, our officeless policy is more robust. We just opened 300 new vacancies for home office engineers. We are now putting together our new home office policy after this period is over. So far, everybody is working from home, but we are focusing on this new way of working and this is across the company. We are very agile across the company in terms of methodology and technology for the company. There are many things happening at the moment. And I believe that our technology, I mean, our technology is 100% present in all of our business areas. And the other way is also true.

In every corner of the technology, we are breathing and experiencing the business. That's why we are very focused on this new journey. And mainly, there are many new functionalities, we are adding more features and there is yet a lot more to come. It will be totally integrated with PIX once it's ready to operate, and then be ready and operational also with a QR Code, agency and account or the branches and the account will come by the end of the year. And the corporate account is also something that is in our pipeline. Now I will turn the floor for -- to speak about the results, the financial results.

Orivaldo Padilha {BIO 21118157 <GO>}

Good afternoon. I just want to make sure that the audio is okay. So now we start on page 17, with our first financial figures comparing with the figure from last year. Here, I start with GMV, and these numbers refer to the numbers that we showed before. The company is growing a lot. And this compensates for all the losses coming from the stores that were shut down during the pandemic period of 1P and 3P. These are the numbers and we already referred to them. So this really illustrates a very robust growth with a peak in June of almost 40% of total GMV, 365% on the online, 422% in 1P, 211% 3P, stores following 27%.

In the release, we also try to answer questions from investors regarding to what will happen to the stores after the reopening. The concept of same-store sales that we applied in the past are very difficult to be real right now. After the shutdown and the reopening, we try to think about that in a more effective way. So using an old concept of same stores open in May, April and June, we arrived at a 15% growth of stores following the concept of same-store sales. And if we compare the days that these stores were open this year, in the second quarter last year -- in the second quarter that lead us to a number of 23%, meaning the physical stores that were reopened were able to capture also a very significant growth.

Now on page 18. This is a breakdown of the results. And here, we see the important results for the company, showing total GMV growing (inaudible), gross profit (inaudible) BRL6.461 billion. Gross profit BRL1.182 billion, 10% better than last year. And in addition, it also is impacted by the tax credits of (inaudible) already been positive this quarter, and then I will show you how this was accounted for in the different lines of our P&L.

And SG&A or general and sales and administrative expenses, minus 25.9%. This is a very different behavior throughout the quarter, but I will show you how the operating expenses and operating margins behaved. Therefore, we arrived at an accounting result of 10.5% EBITDA, BRL555 million, BRL173 million more than the year before, 4.20 percentage points higher. Financial income also impacted by tax credits, BRL74 million better than the year before. And net income, therefore, of BRL65 million, 1.2%, and an improvement of BRL227 million when compared to the same quarter the year before, 392 basis points.

Now next page, page 19. We will isolate the nonrecurring effect of this quarter and also the same quarter of 2019 in order to run a comparison without these effects. So this year, therefore, we have BRL240 million of the tax credit that was accounted for in our gross profit, BRL123 million of the same tax credit monetary correction posted in our financial expenses, which we enhanced. So excluding this impact, the operating loss of the company in the quarter presented a BRL175 million or 3.30%. In the same quarter the year before, there were also several adjustments that were made (inaudible) the first one was BRL51 million of tax credit sales and BRL157 million in expenses of PIS/COFINS. So expenses with advertising and marketing, so the adjustment was BRL203 million for EBITDA, BRL134 million in terms of net income.

Well, once the adjustments are made, we move to the next page, page 20. Here we were able to notice the operating performance in both quarters in a comparable basis,

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like-for-like. Therefore, we had BRL7.260 billion against BRL7.175 billion last year of total GMV following 1.2%, or 85% better. Operating gross profit BRL1.621 billion, slightly below last year in monetary terms but 3.4 percentage points higher than last year. I will have a special slide just to explain this effect and also to demonstrate that this is real.

In terms of SG&A, BRL1.365 billion or 25.9% when compared to 25.30% of last year. This has the strong impact of the shutdown of stores BRL147 million better than the year before 55 basis points. Adjusted EBITDA, BRL314 million or 5.9%, which is almost twice as much of last year, which was BRL179 million or 3.0%. Financial expenses were worse and had all the initial impact the onset of the pandemic, especially late March and early -- late April and May and because of interest rates, so minus BRL49 million. And -- but in terms of percentage, it was better. So net income, we had a loss of BRL176 million or 3.3% negative when compared to the operating figure of BRL296 million. So even with the pandemic this year, our loss, I mean, was improved by BRL120 million. So it was much worse when we compare to the figures of the same quarter of the year before.

On slide 21 here, we have a very clear snapshot of what happened throughout the quarter. The first -- these first three months were totally different. This is the first time, and this is the first time that we break down the figures for every month to be more transparent. In April our total GMV was BRL1.871 billion, so much more. So the online operations didn't react immediately but it was a gradual reaction. So from April to May, there was a growth of BRL650 million of GMV and from -- if you look at June and April, it was an increase of almost BRL1 billion in terms of invoicing. That was exceptional performance, and this refers or is attributable to the online transformation of the company in this quarter. Therefore, we were able to recover our revenue and it was a strong recovery. As you can see, we have talking about that even in the previous quarter, because we -- much of the credit potential the company has to host a gross margin for product because of the NOA health company because of our inventory management expertise.

So (inaudible) profit. So at the end of the quarter, we had our gross revenue reaching 30.7%. In terms of expenses, as stores were reopened and with all the revenue both from physical stores and online e-commerce shows productivity gains, so we went -- started with 29.8% and 24.0% in June. Certainly, all of that involved very strong, stringent cost and expenses management. We were really (inaudible) in terms of looking at grant total of all of the possibilities that are opened up by the government, and all of the different mechanisms were used by the company. And with all of that, it's very clear that the company want people to recover, probably coming from a negative EBITDA close to 3% in March to 2.70% negative in April and a positive figure in May and even surpassing 10% for June. That loss was basically something that occurred in the first 30 days of the quarter.

Next slide. Here, we explain how -- what is the breakdown of the gross margin of 30.7% when compared to the year before, which was 27.3%. First of all, we must talk at a very important change of a lot of mix in furniture. This is a strong loss in terms of monetary volume in brick-and-mortar stores, and this accounts for a loss 0.5 percentage point in our gross profit in the mix of channel in gross profit in the stores is a bit higher, especially because of the furniture category and other relevant categories. And then we have

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operating results in (inaudible). Here, in the changing channel we have 2.3%. But certainly with the recovery of stores and the reopening of the stores, this mix will experience a break down, and we'll start on a recovery path in terms of working an agreement this will turn to a (inaudible) so it's no longer a cost in the gross profit, but it's a financial expense. And this improves the margin to 0.6%. So all of the negotiation gain, considering all the decisions taken by the company on the onset of the pandemic to have robust inventory to cope with the situation, prove to be assertive. And that's why we were able to experience this impressive gain of 5.6%, which allows to have a gross margin growing 30.7%.

In the next slide here we stripped and reinforced our inventory management practice. We made the decision to enhance our inventories at the end of April. We did not close our distribution centers. We've made commercial agreements with our suppliers. We charged for products that were rejected by other clients who shut down their warehouses.

So at the end of the quarter, we reached a level of BRL5.302 billion in our inventory. Most of you talked to us during the process might remember that this meant a potential of almost BRL8 billion or above BRL8 billion when we talk about sale price. On the right-hand side of the slide here, we have the same concept in terms of days of inventory. The base of inventory went from 100 to 124 days. When we look forward and look at our future selling potential, we can certainly say that this is absolutely normal and that the company and their inventories and their replenishment costs despite this challenging moment and a moment when our suppliers are going through restrictions.

So now moving to slide 24. Is it okay? I see another image here. On page 24, here I show -- I'm showing our cash position at the end of the quarter. And this is more than just to show you that after the follow-on, this position does not consider any new cash position considering what happened at the end of the quarter. So excluding this effect, between the first and the second quarter, the company generated almost BRL250 million in cash. Now if you look at the same variation between the first and the second quarter of 2019, we used that BRL1.1 billion and so we can say that the company improved its operating cash position in more than BRL1.3 billion or almost BRL1.4 billion, well certainly because we were able to extend CCB and a follow-up follow on. So we are now in a very comfortable position, whereas we have more than BRL7 million in cash.

And the final slide before we finish the presentation and go into the Q&A session, this is the balance sheet position of our CDCI. This is the first time that we show you this chart because I think that this can help you understand how we spend. And this refers to the pages that appear on the ITR. The ITR has an accounting view. And therefore, future interest rates, assets and liabilities appear on separate accounts. Therefore, when we look at this from a managerial perspective, we have BRL3.15 billion of assets to receive and another amount that should be as (inaudible) banks. This -- if we look at the previous quarter of this year, our position was slightly lower. And during the months of April and May, until the stores begin to reopen, we did not produce so many payment books, and this position appears here in our receivables.

In this quarter, we had BRL776 million interest to be accrued and BRL88 million of active interest to be accrued in our liability line. Therefore, the position on -- of provisions for doubtful accounts, it means that this accounts for 2.3% of our loan book to be received in

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terms of total receivables. I've been reinstating this every time I talk to our investors and analysts that our payment book has a historical resilience. This is not something new because whenever there is a crises, payment book proves that it's super resilient at quite low risk. Certainly, there was a level of delinquencies, especially in April and May, and this was mainly due to the shutdown of the stores because only 6% of the collection was outside the stores. And 65% of all the payment books of April were paid but 35% were not paid. And already just regarding those payment books that were postponed -- payment was postponed to the end of April.

So once stores begin to reopen in the second half of May, the collection process was expedited and there were times that there were lines in the stores and we have to be very careful because the lines were long and we've got to be careful because of social distancing protocol. But at end of June, July and August, also, we had a great evolution if you compare to periods in the onset of the pandemic. So we see a very strong rebound. The recovery is coming and it's very good. This recovery should also be gradual throughout this quarter and this half year, and this shows that we will see the return of new payment books and new hiring operations because we do believe that this is a very safe and resilient company. We didn't see -- we don't see any major risks down the road, and this is reflected in the amount of provisions that we also (inaudible) for this instrument because this can help us even grow further as many banks use credit card limits, this is different to when compared to the use of payment book.

So talking about digital credit. Our digital credit operation is now providing almost BRL120 million in our portfolio. So this is a very safe instrument (inaudible) potential, low-risk or risks are totally under control by us. And so that's it. Thank you very much. Now, Roberto.

Questions And Answers

Operator

(Question And Answer)

So now we are going to start our Q&A session starting with a question by Victor from Credit Suisse. Roberto and Padilha, he wants to know if the online sales are you seeing from new customers, existing customers or -- and if you had cannibalization between brick-and-mortar store sales and online sales, especially when the stores started reopening.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Victor, thank you very much for your question. We did have a mix of both. A lot of new customers are new to our base and a lot of our customers buying via digital. So we do have a number of new consumers. And as we reopened the stores, we kept growing a lot in the online. So physical stores, they are growing a lot. The sales reps from the brick-and-mortar stores are selling whether to customers that are going into the store or customers that are talking to our sales reps via app and also our online is growing. So obviously, there is a balance there. But we are growing on the online as well even after the stores have been reopened.

Operator

Our next question is from Bob Ford from Merrill Lynch. Bob would like to understand a little bit better how is this new relationship with Global in terms of functionality and how this partnership will work in our marketing.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hello Bob, thank you for your question. Global has just launched its ecommerce. This is experimental at this moment. It's something that was just opened. We started just last weekend. We are engaged in this project with them for a while. And we always challenge our agency and all our partners. We ask them how we can innovate in terms of selling and having a relationship with our consumers. So Global invited us for this partnership and we are working on this project with them.

Basically, there is an interaction. What happens with viewers, they can buy several products that are at the show that is running on TV and that is in a very interactive fashion. With their remote control, they can place an order or using their mobile phone and the QR code. This was a nice initiative. The test went well, and we are engaged with Global, and we are still working on this innovation process with them.

Operator

The next question from Tobias from Citibank. This question is whether in your perception of the company, what this recovery mean and the strong growth of the physical retailer, is it due to the measures by the government or some distribution between segments or whether this trend will continue?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Tobias, thank you very much for your question. It's very difficult to draw a conclusion at this point, Tobias. We are not -- I mean, as things are going so well, we are not even questioning where all of this is coming from. But what we've seen is that, in fact, there are some sectors like traveling and other industries that were heavily hit, (inaudible) from home and this has a direct impact with our business. A lot of people in Brazil are not used to buying online. People that did not buy online, now they are going back to the stores and sale is more conservative because they are not just housing the store. When they walk into the store, they have a very good idea of what they want to buy. They go straight to sales rep and the sales rep will help them decide what will be the best product for them before -- it's difficult to understand the impact of the coronavirus at this point. But we are noticing a very strong consumption in the brick-and-mortar stores, and by the same token, on the ecommerce side as well.

Operator

Next question from the Thiago Macruz from Itau. He wants understand what are the main drivers that can explain the gross margin? Online traffic is strong, yet you were able to extract some benefit and maybe you didn't have to enter intense competition and whether there was more pricing re-tagging in the period.

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A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thiago, thank you for the question. The market is strong as it has always been. Competition has been around as it has always been. But we -- as part of our idea to play this (inaudible) we have an excellent team in charge of that. And I think just to put advantage of this moment and advantage of the enormous flow of the clients that came in during this period. I mean, our brands are very strong. What we were likely made was to add -- more excellence to our services. Consumers always wanted to buy online from us, which is going to be ready to cater to the needs of these consumers and now we are ready because our platform (inaudible) not only to serve its customer, but we have the entire logistic service ready to serve these customers. Therefore, it's just a combination of our good brands with everything else that we've been doing. I don't recall having just a single thing that made it happen. With the pandemic, it became more apparent that we weren't already growing our online penetration.

And what happened now with the pandemic is that the case became more digital, more online. And many consumers is to consume into other locations and they also turn their eyes to us. They try now, they like what they saw, and they gave us the opportunity to make the sale and also to deliver right. Our satisfaction was always high. We already see some returning customers. The market was probably asking whether there was any margin disruption. No, there's no margin disruption, there's no cash back. We didn't use any artificial thing to do the sale. What happened was that consumers migrated to us because of everything we did for the company throughout this last year.

Operator

Next question from Daniela Bretthauer from Eleven. She wants to understand if the services revenue that usually has a good margin is at a new normal, or if there was a structural change. And also you told that delinquency should go back to regular levels still this year?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

I will answer the first part of the question and Padilha will take the second. Hello Daniela, thank you for your question. About service sales, it is damaged by ecommerce. We believe that credit operation sales and ecommerce with the digital payment (inaudible). We are already on the right track there. We are going to increase credit operations, but service sales is not -- those are not as simple. But as all the stores are reopened, we'll go back to the same volume that we had for service sales. So that also is going to affect our margin, and there is a trend to improve the service sales, of course. So I'll turn to Padilha for the second question.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Hello, Daniela, and thank you for your question. And as I have already said, there was a strong recovery of payments of customers after the stores have been reopened. Obviously, we did not wait for them to go to the stores to make their payments. In the beginning of the pandemic and a little bit before, actually, we already had developed several digitization actions. Some of those projects were running already in three quarters ago. So we did launch our payment book digital option as a pilot before. And we did that

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with our own customers, so it was not in an open sea. So we do have a controlled delinquency rate.

The customers that did not make any payments on April or May, they went back paying in May and June. And in June, that's when we -- we measure it in different ways. So in the four main weeks in the comparable from the volume of payments of June, paid all receivables volumes in the pre-COVID weeks of March. So we still see that happening. (inaudible) and the new team grew collection. They had already digitized the collection of several collection initiatives, portals, plan renegotiation. All of that was open for customers, and so that they could shift their payment to their new reality. So in a way, this is bringing a lot of return for our collection department, credit recovery. And we also have seen that we are starting a normal period. So we -- is this not -- we don't have a single indicator here. Several indicators show a recovery in a very relevant fashion. And in addition to that, also considering our digital payment book, we start going back to the volume of contacts that we had pre-COVID times and that increases our portfolio mass (inaudible).

Also talking about credit granting, no area is developing several tools to improve the credit concession analysis. Roberto has shown us that 90% of that is already automated and this percentage is increasing. And every month, we have new technologies and new way to improve both credit ranking as well as booked. We were telling you that especially in the follow on (inaudible) so after in the pre follow-on, post pandemic telling you that this is a resilient portfolio. We did hear that from the founders of especially Casas Bahia, they've dispatched for retail various (inaudible) operation since the company started actually. So all of that summed up gives us confidence to say that the risk is -- well, and we are just proving it with the figures. So just a matter of safety, we do not have yet at ADA in our portfolio going up. But we believe that we see a lot of opportunity of our credit operations gaining more penetration and relevance on store sales and now on the online sales as well.

Operator

Next question from Guilherme Assis. Two questions. How were deals in July for Father's Day? What was the trend? And I think you did explain that, but also how is the provisioning policy for credit operation if we expect to increase the full provision considering the impact of the emerging trends, the government has granted into the population.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

So June, July was very good. Father's Day also was good. Sales, both in the sales -- both brick-and-mortar sales and online sales were following a good trajectory. About the second question, I think Padilha already talked about that. But now I would like to go back to Thiago's question. Part of all that happened is that everything that we're doing marketing with our brands and all the intelligence of CRM that's applied to this huge base of customers that we have not much use in the company, but we have a lot of data scientists working on the analytics of the space and generating and extracting from it all potential for consumption, their relationship that helps explain the growing improvement that we are seeing on the online.

Operator

Next question from Andrew from Morgan Stanley. He would like to have more details about the changes on the seller onboarding in the marketplace. A little bit about the profile of the category.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Andrew, good afternoon, thank you for your question. We had a very long line of sellers, and this will be solved now once onboarding is released, and we will pursue real-time on board from now till the end of the year. I mean, we will do filling of categories in our marketplace. We've been testing several categories. We have a very clear idea of what the categories are and what are the sellers who make a difference maybe in other marketplaces in the Brazilian market. And the good news is that most of these sellers are willing to join us. They are willing to get on board. I mean sellers are not loyal because marketplace is a big shopping mall. And sellers want to be in whoever has a large flow and with brands that can add more sales to them.

Therefore, as we improve our service level and we are quite transparent with that. We chose to focus on the 1P corrections because this would give more support to the company, and this is very apparent in our current results, and we arrived at a very good level at 1P, but there's still a lot more to be done. But I can say that our stability is good and the quality level is also good, and our team is now totally immersed in our marketplace.

So what I can say is that there is nothing in technology that is available in other marketplaces in Brazil that Via Varejo cannot have in the next one, two or three quarters. I mean technology is not a barrier. We have an excellent team. But on the other hand, there are several features that only Via Varejo can offer and so what we will do, we will then focus on these features and make them available. Most part of all the competitors in the end marketplace do not have so -- such a vast (inaudible). Most marketplaces don't have more than 20,000 sellers that would be willing to sell all 3P items. At Via Varejo, most of them do not have their own credit operation and the same track history that we have and this will also be available through our marketplace. And not only that, we have a gigantic number of hits. And this will also be at the services marketplace. We have more than 15 million active users. And at first, all of that improves the marketplace. And after that, I mean, once marketplace is boosted, this will generate re-currency to Via Varejo, this is a win-win situation. And this brings about other opportunities to gain logistic services and many other things that are still in our pipeline and our radar.

In most marketplaces, you don't have a bank as we do have (inaudible) customers that we have in our customer base. So what we're missing in marketplace is enhanced technology. But once again, there is nothing available in (inaudible) ourselves. We would be able to deliver that and to deploy that very soon. And as we evolve, there will be more traction, not only in 1P but also in 3P. So our (inaudible) driver is now 3P at the moment.

Operator

Next question from Joseph from JPMorgan. He wants to know the company's strategy to attract talent and technology and what are the main challenges in terms of development looking forward the next three months.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

I think somebody asked Alison that same question yesterday. So the answer is right off the top of my head. In fact, I think good people attract good talent. We have an exceptional team working in our technology area. Alison have a great team working at several levels. I mean, the tech people, they love challenge. They're driven by challenges, therefore, a challenge to transform Via Varejo. And also, given the company's potential, considering what it has (inaudible) yet to happen, this draw attention of a lot of the tech people. And we really see that being translated into the onboarding of new people coming to Via. I think that when yesterday we decided to open 300 new positions and we are offering the possibility of working from home, in 24 hours, we have been very successful. This is on the table of the success we are experiencing since three months ago.

We want to say, I think, people are willing to say, I was part of one of the largest transformation cases in the Brazilian market. People are very enthusiastic and highly motivated to be part of this team. I don't know whether I forgot some part -- any other part of your question.

Operator

Deliveries, I think, and development.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Next, deliveries. This is very much aligned to the last line of my presentation because I think it has a lot to do with the new apps from the other brands. We will put a lot of intelligence in our pricing management in our inventory management. So as we have 500 mini hubs, we embark a lot of intelligence so that we can leverage inventory in a more intelligent way to the mini hubs to lower the cost of our logistics, and we want to be -- to deliver quicker. We have to optimize offline and online, and to promote end-to-end integration, and we will intensify that integration further and this is -- I mean pretty soon, we will no longer look at where the customer is coming from because the sales rep in the brick-and-mortar store is placing the sales as well.

All of our back office structure is being reviewed. We are making several deliveries (inaudible). And this also brings a lot of efficiency gains for our business. And certainly (inaudible) innovation quite frankly after this integration with us and after that big dive into our customer base. This is just a bit of what I can tell you. There is more, but I can't say everything because I know that the competition is also listening.

Operator

Next question, Roberto, will be from Santander. What can we expect in terms of the behavior of brick-and-mortar stores after the third quarter and on?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you, Ruben, for your question. If I well understood, how can we plan the stores, right, if I understood, our store front, right? I think that strength that we have gained with the online sales reps, the digital sales reps, showed us that we have the ability of migrating in consumer channels and even from physical stores. So all retailers are constantly analyzing in bigger stores footprint. This is in the DNA of all retailers that have physical stores. So people in online footprint with some important pillars. The store that has a relationship with consumers itself, and that has that relationship with consumers, we'll check those. The stores that will be serving the last mile that is the last mile (inaudible) in that store. And else this store has a technical (inaudible) unit for consumers; they buy online and pick it up at the store, whether it's 3P or 1P. So this is going to define the review of our stores footprint, and we are constantly analyzing that. But I cannot tell you anything now. I just can tell you that we'll be reviewing our pipeline based on these pillars.

Operator

I think that there's another -- a different synergy here in this question Irma from Goldman Sachs is asking if there are possible opportunities to buy a store or real estate from competitors. Maybe there are companies that are having a hard time in this pandemic, and if that could be good for Via Varejo.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hello, Irma, thank you for your question. Well, first, we go back to reactivating our store expansion plan. So (inaudible) that I just mentioned that, which are the stores in the relationship with consumers, the (inaudible) last mile and for the (inaudible). And we are then mapping some areas in Brazil, where we need to add stores. So we'll move on with our expansion plan for these areas. And we are always analyzing the situation. We are not considering the purchase of any retailers. But yes, we do have extra points of sale or physical stores that are available. There are opportunities on the table, and we are analyzing those whenever it makes sense for us to move forward with our expansion plan, and we are analyzing these pillars.

Operator

Next question from Gustavo, UBS. He wants to know whether there is still any potential to improve your gross margin looking forward. And what about the loyalty program something -- program something to do (inaudible).

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Well, Gustavo, we will not [ph] gain more margin. We never rest our case when it comes to our margin. We are always pursuing more. Therefore, we are trying to be more efficient in many of our processes. And as I said, we are putting a lot of data scientists at work to improve the value of our pricing decisions. And I think that all of that has an impact on profitability. I cannot tell you precisely how much more we could improve, but it's something that is an ongoing pursuit. And in terms of loyalty program, especially cash

back programs, just to be very objective, cash back, it's a beautiful thing just to reduce margin and give discounts. So this is the summary of what cash back is, give out discounts.

We don't think about doing that. We do not have that in our range. Well, we do have an advantage because we have good enough margins that would allow us to do that. But we also believe that there are other paths that can help us to add more customers to our base. And this is something we've been doing. You can see that if we have the results from previous quarters. But right now, the company does not intent to do anything that could deteriorate its margins or that could offer some major discounts. We still believe that there -- we have to focus on growth with sustainability and good continuity.

Operator

Next question from Pedro from XP. He would like to hear a bit more about banQi and how that fits into the long-term strategy of Via Varejo.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Pedro, thank you very much for your question. Well, banQi sits perfectly well with our long-term strategy. I believe that at first, Via Varejo will generate a lot of customers to banQi because of our customer base. And secondly, banQi will also generate a lot of recurrence into Via Varejo, but banQi will have its own life. They will not depend on Via Varejo. We hope that they will, at the end, become a digital wallet of the Brazilian C class. We will be able to add a large number of services to that market of society and I think that what we have today is already a major differential to that (inaudible) society because in most cases, they do not even hold a banking account. Therefore, we want to be the digital wallet for these people because they already have a conversation with our stores. And certainly, we can also benefit from that re-currency. And both organizations can run parallel. One can be the facilitator of the other.

Operator

There's a last question here. Another question from Bob. Actually, it's a very nice topic. How do we see the potential of the digital payment both for the company in the future? And then if you want to make your closing remarks, I think we can end the call.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Okay. Thank you, Bob, for your second question, and it's really good. We see a very important avenue there. Everything that we have built and that we have here in our current operations is now available in digital format as well. 90% of our (inaudible) is already under our digital automation process, and we concluded that there are no barriers to have a strong credit operation in the digital area as well. And this is a huge potential to the company and the service level is inclusive for consumers that are coming in to the online and they need a retail access that will understand them better. So this is a great important avenue for growth in the online payment operations.

Well, I'd like thank you very much for staying with us. I know this was a longer call, but this was a very important quarter with excellent news transformation. I think we have improved

three years in three months here at Via Varejo. But my message is that we're already to go beyond retail, like we wanted -- when we came here, we wanted to go back to the retail and then to have a retail excellence, and now we are ready to go beyond retail. The future is open to us, and we'll keep on following that execution with a lot of focus, a lot of transparency and great consistency in our deliveries. And we'll move on growing at Via Varejo.

Thank you all very much for participating. Thank you.

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