Y 2018 Earnings Call

Company Participants

- Carlos Mauad, Chief Executive Officer
- Jose Luis Gutierrez, Chief Executive Officer
- Jose Roberto Meister Mussnich, Chief Executive Officer
- Noel Prioux, Chief Executive Officer
- Paula Cardoso, Chief Executive Officer and Executive Director of Clients, Services and Digital Transformation
- Sebastien Durchon, Chief Financial Officer

Other Participants

- Gustavo Oliveira, Analyst
- Joseph Giordano, Analyst
- Richard Cathcart, Analyst
- Robert Ford, Analyst
- Ruben Couto, Analyst
- Thiago Bortoluci, Analyst
- Thiago Macruz, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, thank you for waiting. Welcome to Grupo Carrefour Brasil's Fourth Quarter and Full Year of 2018 Conference Call. At this time all participants are in listen-only mode. Later we will conduct a question-and-answer session, when further instructions to participate will be provided. (Operator Instructions) As a reminder, this conference call is being recorded and broadcast live via webcast on the Investor Relations website at www.grupocarrefourbrasil.com.br. The slide presentation is also available on this website. slide selection will be conducted by you.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments or statements because of macroeconomic conditions, market risks and other factors.

It is now my pleasure to turn the call over to Mr. Noel Prioux, Chief Executive Officer to start the conference call. Mr. Prioux, you may proceed.

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Noel Prioux

Good morning, everyone, and thank you for joining us on this call to present Grupo Carrefour Brasil's fourth quarter and full year 2018 Results. I am joined on this call by Roberto Mussnich, CEO of Atacadao; Jose Luis Gutierrez, CEO of Carrefour Retail; Paula Cardoso, outgoing CEO of Banko Carrefour and newly appointed CEO of Carrefour e-business Brazil; Carlos Mauad, who has just taken over as CEO of the Bank; and Sebastien Durchon, our Chief Financial Officer; Daniela Bretthauer, our Head of Investor Relations is also with us.

I will start with a brief overview of the key highlights of our performance and strategy. Sebastian will then detail our financial performance and Roberto, Gutie, Paula and Carlos will present the key performance highlights of their respective businesses. After my concluding remarks, we will then open the floor to your questions.

We will begin on slide 3 with the key highlights of 2018. A year that saw significant transformation at Grupo Carrefour Brasil. During the year, many steps were taken towards realizing Grupo Carrefour Brasil's ambitions. Our goal is to maintain a leadership position in Brazilian retail, become leaders in food e-commerce, and a key player in nonfood e-commerce.

Similarly, and in line with the Carrefour 2022 transformation plan announced in January 2018, we further expanded our multiformat network. We accelerated our digital transformation. We launched new and innovative services, and we positioned ourselves as leaders in the food transition for all. All of these initiatives aim to bring us even closer to our millions of customers across the country.

We invested BRL1.8 billion in the year in accelerating our multiformat expansion. We opened 20 new Atacadao stores and further developed our proximity strategy opening nine new market stores and six new express stores. We also implemented click-and-collect in all Hypermarkets, installed pen drives, made significant changes in CRM, made significant acquisitions and established important partnerships, the highlight going to Rappi to accelerate our last mile delivery.

In e-commerce, we tripled the number of SKUs over the course of the year, bringing our marketplace to account for nearly 20% of GMV. Multiformat is also expanding in financial services. We started allowing the use of Carrefour card in all Atacadao stores. And we are exempting cardholders of their monthly fee. And we continued to evolve in the food transition, with our private label representing 11% of Carrefour Retail sales at year-end compared to 8% in 2017. And with solid growth in sales of organic and healthy food, mainly due to the implementation of dedicated store areas.

We are on track to achieve our targets of 20% of private label sales by 2022. To further strengthen the Carrefour Ecosystem and integration between the physical world and the virtual world, we recently announced that the creation of the Carrefour e-business Brazil business unit. The creation of Carrefour e-business Brazil is a clear sign of our

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commitment to profound the transformation in our business model, becoming even more competitive in the Brazilian market.

We appointed Paula Cardoso to help this new venture. Over the past years, she have generated her position as CEO of Banko Carrefour with the role of Head of Carrefour's Digital Transformation, with the creation of CeBB Carrefour e-business Brasil. She will now be dedicated full-time to this new segment.

Carlos Mauad, who is with us today was selected as the succeeder as Head of the Bank. On behalf of the Group, I would like to welcome Carlos Mauad to the team and wish them both the best.

On slide 4, you see how all this translates into solid and sustainable growth in sales and profitability. This slide shows the key headline numbers of both Q4 and the full year, both of which showed strong and sustainable growth in sales, adjusted EBITDA and net income. In the full year gross sales grew 8% to BRL56 billion, adding nearly BRL4 billion in sales. Adjusted EBITDA increased by 19% to BRL4.2 billion, while EBITDA margins stood at 8.2% and net income group share rose 48% to BRL1.9 billion with net margin of about 4%. This result had a positive impact on our balance sheet, which remains very solid.

We ended the year with net cash of BRL831 million with a very low indebtedness, which gives us great financial flexibility at this crucial time of transformation at the Group. Free cash flow reached BRL1.3 billion in the full year, up from BRL1.1 billion in 2017.

Let me now hand over to Sebastien for a closer look at our numbers.

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Sebastien Durchon {BIO 20242758 <GO>}

Thank you, Noel, and good day, everyone. And this shows on the chart from slide 6, we have seen steady improvement quarter-on-quarter in sales. Showing some improvement quarter-after-quarter in sales and their growth rate also accelerated sequentially. Our consolidated sales were up 10% in Q4, in total, including petrol. This is a very dynamic performance made in the first quarter of double-digit sales growth since Q4 2016. This robust growth and the quarter results from the combination of several factors including accelerating, like-for-like sales in all formats, rapid expansion at Atacadao with six openings in the quarter and first growth of e-commerce, which already accounted for 10% of cost for retail sales including petrol in Q4 versus 5.8% one year ago.

In the full year, gross sales stood at BRL56.3 billion, up approximately 8% versus 2017. Like-for-like sales accelerated consistently during the year reaching its highest margin in Q4 at 5.8% including petrol. The contribution of expansion to overall sales performance, namely, the 20 new Atacadao stores also increased quarter-on-quarter from 3.6% in the first quarter to 4.3% in Q4. The steady growth in sales throughout the year makes us even more confident in the outlook for 2019.

Please turn to slide 7. Quarterly EBITDA performance also improved steadily during the year, with adjusted EBITDA margin growing quarter-after-quarter both at Atacadao and

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Carrefour Retail. As Noel mentioned, adjusted EBITDA margin was close to 10% in Q4 and a little over 8% in the full year 2018.

On slide 8, we turn to our P&L, which shows a sharp improvement in profitability, both in the fourth quarter and in the full year, thanks to the Group's solid operating performance. Net sales were 10% higher in Q4, and BRL14.7 billion driven by improved performance in all our businesses. In the full year, performance was equally positive.

In Q4, gross profit reached BRL3.4 billion, up 19%. Our gross margin improved by 180 basis points to 26.3%, driven largely by Atacadao's better performance and also by Carrefour Solucoes Financeiras. The margin increase reflects the positive impact of the BRL210 million in ICMS ST tax credit for states other than Sao Paulo, but in the last quarter at Atacadao. We continued our cost reduction efforts across banners especially Carrefour Retail.

SG&A expenses were virtually stable year-on-year at 14% of net sales reflecting our productivity efforts with efficiency gains and tight control of expenses, even including the impact of an accelerated pace of expansion and of stores under construction. As a consequence of the significant increase of our gross margin and enhanced operating leverage, consolidated adjusted EBITDA rose by a very solid 27% in Q4 to BRL1.4 billion. As a result, adjusted net income, Group share was up by a very strong 66% to BRL758 million with a 5.3% net margin. Our performance in the full year was equally strong.

Net sales were up 7% to BRL51.3 billion, a gain of nearly BRL4 billion in the year. Adjusted EBITDA was up 19% to BRL4.1 billion with margin increasing by 76 basis points. Our net financial result was down by more than 45% in the year, as a result of lower interest rate and lower debt level in the period. As a reminder, in 2017, we used the proceeds from our IPO to pay off all our intercompany loans with Carrefour Group. As such, adjusted net income group share increased by 48% to BRL1.9 billion.

As you see on slide 9, our solid operating performance and strong free cash flow generation of BRL1.3 billion in 2018 allowed us to pay a higher dividend with a total payment for the year standing at BRL470 million. This is 48% higher than the 2017 dividend payout. As previously announced, the anticipated payment of part of the annual dividend in the form of interest on shareholders' equity in the amount of BRL380 million, which was paid in December.

Yesterday, our Board of Directors proposed an additional dividend payment of BRL90 million also in the form of IOE to complement the payout for the full year 2018, which translates into a payout of 25% of adjusted net income. This additional amount is subject to approval at the Shareholders' General Meeting scheduled for April 16, 2019.

We will now take a look at each of our business units. I will now hand over to Roberto to start with the excellent performance of Atacadao.

Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

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Hello, Ms. France, thank you, Sebastien. Atacadao posted another very strong and consistent quarter, as you see on slide 11, with sales accelerating in double-digit and margins improving. Gross sales in Q4 accelerated for the fourth consecutive time. As you seen on the left chart of the slide, testing the strength of our commercial model.

Sales rose by almost 15% in Q4 to BRL10.7 billion, a steady significant increase over the 11% growth recorded in Q3. The 8% increase in Q2 and the 5.7% rise in Q1. We saw a continued increase in volumes in average ticket. This refers to the technique of the model, the elasticity of B2B as well as a more favorable commodity prices. The strength of Atacadao's model was evidenced by the strong acceleration in like-for-like sales that you see on the graph in orange.

Like-for-like growth accelerated quarter-after-quarter, from 0.5% in Q1 to 4.5% in Q2, 6.2% in Q3 and 7.4% in Q4. Expansion also contributed 7% in the quarter and grew consistently quarter-on-quarter, as shown on the blue part of the bar chart. We opened six stores in the fourth quarter to achieve our goal of 20 openings this year for the first time in our history. Most of these openings were in cities in which Atacadao was not yet present. In other words, we have further broadened our footprint. The well-balanced pace of openings throughout the year created optimal conditions. For instance, new store, enables us to maintain the space of expansion in the medium term.

Gross profit, in the quarter rose by 29% to BRL1.6 billion. As mentioned by Sebastien, Q4 margin includes the recognition of BRL210 million of ICMS ST tax credits in the states other than Sao Paulo, resulting from a positive (inaudible) preposition. Those credits are recurring and reflect full year gain. In the full year, our gross margin was up 80 basis points including 52 basis points plus tax credits. Thanks to our efficiency and strength of our model, we managed to keep distribution costs stable in the full year at 8.1% of sales despite the 29 new openings and the growth posted.

Adjusted EBITDA strongly outpaced sales growth and rose by about 44% in Q4 with margin improving 190 basis points to 9%. Excluding the ICMS ST tax gain of BRL158 million, related to the first nine months of the year, adjusted EBITDA was 18% higher at BRL734 million with margin up 23 basis points to 7.5%. So Atacadao's leadership and growth story continues.

Every year is better than the last, with growing of stability, thanks to the beauty of our model. I will also comment on the announcement we made just yesterday of the creation of a COO position in Atacadao with the appointment of Marco Oliveira to occupy the position. This is yet to be formalized by our shareholders. I'd like to remind you, you probably know, Marco has been with me since day one of Grupo Carrefour in Atacadao, and has played a key role in maintaining culture and in our ongoing growth process.

Sebastien Durchon will replace him as CFO of Atacadao, combining this function with the position he has held as CFO of Grupo Carrefour Brasil for the last five years. This is part of a streamlined succession plan. A succession plan that would be taken forward smoothly. And I will remain the CEO of Atacadao for as long as necessary, separating initiatives that are under development. There'll be a lot more to talk about especially with regard to our new growth front including digital initiative. In sum, a brilliant future awaits.

Thank you very much, let me now hand over to Gutie.

Jose Luis Gutierrez {BIO 17684109 <GO>}

Thank you, Roberto. On slide 12, I will comment on the performance of Carrefour Retail. In the fourth quarter, our gross sales totaled BRL5.1 billion. Like Atacadao, Carrefour Retail's sales also accelerated quarter-after-quarter. In Q4, like-for-like sales were 3.5% higher versus 2017, accelerating substantially from a growth of only 1% in the first half. This recovering trail reflect several factors.

Firstly, I would like to comment on the many successful initiatives we have implemented in Hypermarket, in line with our food transition strategy. We expanded our healthy product offer in a quarter of the trade [ph] network in 2018, and we plan on doing this in the remaining stores in 2019. We also increased the penetration of our private label products to 11% of sales at the end of last year showing significant growth.

Secondly, the positive results of the first phase of the competitiveness plan implemented in 23 Hypermarket stores that faced a greater competition in their respective locations. In the fourth quarter, we expanded this competitiveness plan into some key categories in all stores. Thirdly, the improved performance of proximity stores. This transformance, where we made a series of changes in the sales model resulting in a very positive sales trend, with double-digit increase and like-for-like sales in the fourth quarter, and the successful openings of 10 new market stores, which reinforced our proximity strategy in 2018.

And lastly, e-commerce sales made an important contribution accounting for 10% of Carrefour Retail's sales in the quarter. I will detail this later. Regarding our profitability, I would like to highlight the importance reversal in the gross margin trend. Gross margin in Q4 was virtually stable at 25.8% versus Q4 '17. But this level represents a significant improvement compared to the average gross margin of 24.2% in the first half of the year. This improvement was achieved despite the impact from the higher share of e-commerce and investments in the previously mentioned competitiveness plan. As a percentage of net sales, distribution costs accounted for 19.5% of net sales in Q4, the lowest quarterly percentage in 2018, reflecting our ongoing cost reduction and efficiency initiatives underway.

In 2018, distribution costs were 20 basis points lower than in 2017 and accounted for 20.1% of net sales despite the mandatory collective wage increase in the last quarter and investments in our omni-channel project. Thus we observed a gradual improvement in adjusted EBITDA margin over 2018 from 3.9% in Q2 to 4.5% in Q3 and to 6.4% in the last quarter, in other words, an increase of 200 basis points compared to the beginning of the year.

I will now hand over to Paula, who will comment on e-commerce and our omni-channel strategy.

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Paula Cardoso

Thank you, Gutie. Hello, everyone. Once again, our e-commerce operations were the fastest growing segment within Carrefour Retail as shown on slide 13. E-commerce sales now account for 10% of our retail sales nearly doubling year-on-year. As shown on the slide, Q4 was another period of strong growth. E-commerce GMV grew by 110%, significantly outperforming the market in the same period. 13% according to E-BIT. We enjoyed an excellent performance at Black Friday with growth of 71% in the number of visitors to our website, 82% increase in orders and 8% higher average ticket.

In the quarter, orders were up by 77%, as we continue expanding the number of SKUs. The number of visits was up by 76% reaching BRL44 million in Q4, average ticket was 19% in the quarter. Our marketplace is growing rapidly. It now accounts more than 1,500 sellers with SKUs multiplying by 3 times during the year to reach about BRL2 million.

As a result, the marketplace accounted for nearly 20% of our GMV in Q4 compared with 16% in the previous quarter. Such strong growth is significantly helping us gain scale and profitability. The operation generated cash in 2018. Gross margin improved by nearly 400 basis points in the year when we compare to the second half to the first quarter of the year. In Q4 '18 and Q4 '17 comparison, increase was 5.6%. Marketplace has reached breakeven and should start to positively contribute this year.

Slide 14, please. Slide 14 shows you a few examples of deliveries aligned with our already announced priorities, which are expanding rapidly. I would like to point out three; omni-channel experience, payments and data. One, omni-channel, we have completed the rollout of click-and-collect, which has a nonfood focus in all of our Hypermarkets, some figures are worth highlighting. This operation now represents about 10% of total 1P sales reaching 16% of e-commerce sales at Black Friday. One in every three customers that choose to pick up the product in one of our stores ends up making an additional purchase. 20% of the customers are new to Carrefour.

Now take a look at drive, which focus -- with a focus on food items already available at 10 stores accounts for 21% of food e-commerce orders, perceived quality indicator NPS, higher than 70% and a 40% repurchase rate. Concerning payments, we already have three initiatives. Scan and Go, focused on Carrefour Express, where customers scan the product and pay for them via their mobile app without having to go through the checkout line. To requote, customers that are Carrefour cardholders can pay using the QR code at Hypermarkets without using the physical card via the Carrefour app. To conclude Carrefour Pay, our digital wallet with NFC technology, which supports payment at any store that has this approximation technology available including all Carrefour stores.

Now a few details about the program, Meu Carrefour. We have over 13 million customers registered in the program. Today, 67% of sales are identified. We had over 1.5 million downloads of our app and most importantly, we have already seen growth of 51% in the active customer bases share between January and December. And frequent customers are spending 40% more on average. We will continue to accelerate our program.

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Slide 15 please. Here you have a little bit about our new area, Carrefour e-business. The creation of Carrefour e-business is a clear indication of our commitment to building a strong omni-channel platform and accelerating the O2O strategy. The focus and resources to accelerate the transformation of our traditional retail business into digital retail. Main objectives. One, becoming leaders in online food retail. Two, building the ecosystem, which simply means to quickly leverage the integration of the on-and off-line world with logistics and payment solutions using start-ups to accelerate this process.

In fact, this is already in motion. You were able to see our first acquisition, Cyber Cook. And we also took the first step towards accelerating last mile solutions through our partnership with Rappi, which is going very well. About data and Martech [ph], which strongly leveraged the use of data in digital marketing so that with better knowledge of our customers we can offer -- right offer them services and be more assertive. In this regard in Q4, we already established a partnership with Carp [ph], a start-up focusing on analytics segmentation and campaigns, and we are really very excited with the results obtained so far. On IT, an integral part of the business, we are creating Carrefour Lab with a light and agile structure.

Let's talk now about the Bank on slide 16. As Noel previously mentioned, Carlos Mauad has taken over as CEO of Banco Carrefour this year. So for that reason, this will be the last time I present the Bank's performance. It was a pleasure to lead the Bank for the past six years.

So let's talk about results. Let's go to slide 16. Banco Carrefour posted another strong performance in Q4. Billings were again up in double-digit. Adjusted EBITDA posted another impressive increase as the quality of our credit portfolio continued to improve. Billings totaled BRL7.5 billion in Q4, up 26%, and BRL25 billion in 2018 full year, up 35%. Atacadao card reached breakeven in Q3, the credit portfolio reached BRL8.4 billion growing 33%. Adjusted EBITDA in 2018 was BRL829 million up 49%. And the EBITDA was BRL895 million, up 61%. The balance of loans averaging more than 30 days fell by 0.10% to 12.5%, the best point in the curve over the last six years.

The Bank has experienced a structural transformation in its dynamics of customer solution development. The agile methodology spread of the company's day-to-day activities and the squad were assembled to take care of the customers' full journey.

Speaking of transformation I would like to turn the floor to Carlos Mauad, the new CEO of the bank who will briefly comment on what we are working on.

Carlos Mauad

Thank you, Paula. Good morning to all. The transformation model to digitalize customer experience has already been implemented and it's gaining momentum by the day, transforming the way the company relates to its customers. Some results of this transformation can already be seen. In Q4 we sold 5 times more cards through our digital channel when compared to the same period last year. We had a significant increase in digital customer service through our app, web portal, self-service terminal and chat box.

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50% of collection and negotiations were made through digital channels and 58% of those were delivered to customers in a digital format.

Looking ahead, we are closely connected to the digital transformation plan of the Group. The transformation that has been adopted by structuring the teams and squads and developing an excellent center -- an excellent center. All of this gives us greater agility and quality in the delivery of innovative solutions to our customers. I'm confident that 2019 will see the consolidation of new work dynamics, translating into the expansion of our customer base, product that excel and operating and credit efficiency.

Let me turn the floor back to Noel for his concluding remarks.

Noel Prioux

Thank you, Paula and Carlos. Let me conclude on slide 18, which presents our priorities and strategy for 2019. First to priorities. The first, to connect new customers through our omni-channel strategy in all states of Brazil, and two, to strengthen our leadership in food retail. We will maintain an accelerated expansion pace, increasing investments in e-commerce and establishing new partnerships with startups and other technology players. We should invest approximately BRL2 billion in 2019 fostering integration between the physical and the virtual world.

We maintain our strong commitments to being the leader in food retail in Brazil always with excellence in our products and services and always one step ahead when it comes to innovation. We'd like invite you all to join us in our Investor Day. It will be held on March 29th at (inaudible) in the morning. This concludes our presentation for today.

Thank you very much for your attention, and we are now happy to take your questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) First question from Joseph Giordano from JP Morgan. Mr. Giordano go ahead.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning to all. I would like to know more about this margin trend in retail. We see an increasing trend. So I would like to understand from Paula, what is the main strategy to leverage the whole online ecosystem? Not just the online ecosystem, but given what you are implementing at Carrefour's platform.

Perhaps big data of the Atacadao card can help come to the profile of customers at the stores. And the second point, when we look at food inflation, it's running marginally above general inflation. So I would like to understand from you, can we start thinking of having a

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trade budget that will be a little stronger in 2019. In 2017 and '18, I think, the commission for suppliers was a little lower. Thank you very much.

A - Paula Cardoso

This is Paula. I will start speaking about the platform. We have no doubt that e-business looks at Carrefour regardless of the format. What matters is to be closer to clients and more agile in deliveries and accelerating strongly our growth. The use of data is undeniably an integral part of this process. And the answer is, yes. Just like happened -- it happened with Carrefour Meu, the cornerstone of theorem [ph] happened at the bank. This is also happening with Atacadao.

Now we have more than BRL8 million in the database with many identified sales and learning a lot about segmentation and targeting. In the future, undoubtedly, everything will be one single thing, leveraging each one of the formats in terms of efficiency, growth and its location for distribution. Complementing a clear benefit that we have in nonfood, in the last two years, we had a strong growth both at the stores and in e-commerce. And with that, we were able to increase our nonfood sales by almost 50%. So you can imagine all of the benefits that this brings us, both in e-commerce and in retail. Even more so with click-and-collect and all of the things we were able to implement last year.

Q - Joseph Giordano {BIO 17751061 <GO>}

I have a follow-up question. We are using a super app, while the competitor is trying to improve theirs. So I'd like to understand the rationale of having a partner, Rappi, instead of having an in-house solution?

A - Paula Cardoso

This is Paula. I think there are some messages here. I cannot speak for the competitor. I can speak for ourselves. We definitely want to accelerate the food business growth. We're establishing a partnership with a market leader today, Rappi. They are growing very strongly. It is an operation, which is a win-win case, because we are leveraging the strengths of both our operational efficiency and a fast last mile delivery, which is Rappi's strength. It doesn't mean that this is the only solution for us. It was the first solution. We forged a partnership with the strongest player in this market, in our view, and they are growing very quickly. We are very happy with the solution so far.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you Paula. Now I have a question regarding the margin.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Well, in the margin, in the first half, we had a strong impact on margins because of prices. We have three effects. One, we have initiatives of investing in a smarter way to recover our margins. The second, is our negotiations with our suppliers and thirdly, multiformat with higher margin levels compared to the average of retail. And also we have a better trend. When you want to negotiate with a supplier, you need volume. Our strategy was to maintain price to show that this is sustainable and that they can win with Carrefour

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because of our high volume. This is what matters. It was difficult in the first half but now, we see an evolution. And 2019 is expected to be the year of sustainable growth and this is what we want, not just one quarter. We want to have a true policy for our customers with affordable prices, with good volume and good quality. And all of the parameters are good.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Next question by Thiago Macruz with Itau. Go ahead Mr. Marcruz.

Q - Thiago Macruz {BIO 16404924 <GO>}

My question goes to Roberto. Roberto, when we look at what happened to profitability of your business in the last two years, we realize that fiscal benefits that you had ended up in the margin that led to EBTIDA surprises for us compared to our prior estimates. My question is do you expect some kind of investment of this little fat [ph] in prices in the short term? Is this reasonable? Or do you think the competition is a little less complicated than you imagined, and so it would be reasonable to suppose that the margin should remain stable or, perhaps, even higher compared to current levels? This is my question. Thank you very much.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Hello, Thiago. Indeed, you mentioned this "fat." We don't need to use it, because this is a true buffer, it's a true fat not included in our operation. And we want to keep it this way. It is a weapon, it is a ammunition, of course, it exists and it is there. Regarding the competitive landscape, the competitive landscape is more and more competitive, not less competitive. What happens with the margin every now and then is, given the beauty of our sales model, and given the scale that we have, it can be used. For us to have an effect on absolute numbers, we can perhaps use demand felicity reducing margin a little bit to end up with a slightly better absolute number. This is a tool that is available to us in the model and we know how to use it.

So we have seen today is that our ability to negotiate, our ability to establish partnerships with our suppliers plus the need to invest in the market. All of this is helping and like, we like to say, if the market changes every day then we try to get the best out of the market. You saw improved margin, given the volume and given the efficiency of the model more specifically. Now if we need to use that fat, we will use it, no doubt about it. I hope I have answered your question, Thiago.

Q - Thiago Macruz {BIO 16404924 <GO>}

You did answer my question, Roberto. Thank you very much.

Operator

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Next question from Richard Cathcart with Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good morning. I have two questions. The first is about gross margin of retail. I think Paula said that e-commerce growth to margin generate -- or grew 6 -- or 6 points year-on-year. If I understood this well, this means that the gross margin of hypermarket had a relevant reduction. I just want to understand is this a fair statement? And if there is a reduced gross margin at hypermarket, what was the reason for that? Investments in price perhaps? And my second question is on e-commerce. Paula, you gave us some detail on the gross margin of e-commerce. Could you tell us a little bit about the profitability of the e-commerce channel regarding the EBITDA?

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Good morning, Richard. The margins were -- well this is an important point. Paula said 5% of the e-commerce margin happened in Q4 of the year, not for the full year, in Q4. I want to remind you that e-commerce accounts for 10% of retail. So the gross margin of retail did not drop. It actually increased a little. So this applies to the -- to Q4. Now the e-commerce point is very important. Two years ago, we had an impact, a reduction in our total margin, because of e-commerce, and now we are coming to a very different moment. We're gaining scale and e-commerce is able to improve its margin with less impact on the compound margin for retail. And again, we had a strong growth at the stores. At the stores, we are improving, marginally, the margin. So this -- there is no reduction of whatsoever in retail margin.

A - Paula Cardoso

This is Paula. Talking about the profitability of e-commerce. It is always important to remember that this is a start-up operation. For 2.5 years, we've been investing. We don't give guidance on the EBITDA margin, but we can tell you clearly that the gain in scale was very strongly. Our expenses improved almost 6 points this year. We were cash generator which is extremely important in an e-commerce operation and improving our margins with these different mixes and synergy gains. This is the path to go. This is the point of no return. This is an important growth driver. It's important for the omni-channel strategy, but undoubtedly, we have a focus on profitability, and scale gains and growth will allow us to improve that relationship year after year.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you. I would like to ask a quick follow-up question. Actually, I wanted to understand the growth margin of the hypermarket excluding e-commerce?

A - Paula Cardoso

Well, food had a stable margin, improving slightly. And non-food remained steady. But again, net of e-commerce and retail, we have a greater growth in non-food than in food. If you look at the combined picture of the margin is slightly lower. But factor by factor, the margin did not fall.

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Q - Richard Cathcart {BIO 16457807 <GO>}

Okay. Perfect. Thank you.

Operator

Next question by Mr. Robert Ford with Bank of America. Go ahead sir.

Q - Robert Ford {BIO 1499021 <GO>}

Good morning to all. Paula, how will the demand impact the profitability? I know that your experience with Rappi is new, but can you tell if we have incremental deliveries? Or if it's just a change in the behavior of existing customers?

A - Paula Cardoso

Robert, I'm sorry I didn't understand the beginning of the question, could you repeat the beginning of the question, please?

Q - Robert Ford {BIO 1499021 <GO>}

How will the demand of delivery impact the stores? And I know that your experience with Rappi is new, but can you tell us if this is incremental deliveries? Or if it's just a change in the behavior of existing customers?

A - Paula Cardoso

Well regarding the profitability, we are at the very beginning of this partnership. I think that both parties are investing and we are learning a lot. I think that this is a learning moment. We have new customers, 60% of what we are getting is new customers, A, B income brackets. We are learning a lot about a regional action. So, Bob, we are in the third month of this partnership. We're implementing it and growing fast in more than 48 stores. And this is a learning moment regarding customer behavior, and regarding the right offers to customers. This has been a very rich experience for us. Regarding profitability, we are at the very beginning. We have a number of negotiations ongoing to grow the partnership. It's too early to say the operation is -- it's crawling still.

Q - Robert Ford {BIO 1499021 <GO>}

Okay. Thank you very much.

Operator

Next question from Mr. Ruben Couto from Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

I have two questions. Could you give us an update on the competitive plan for the hypermarket? Do you intend to rollout in more stores, in addition to the initial 23? What has been -- how well was this received by suppliers? And another question, very quickly. You mentioned a minimum of 20 new openings for Atacadao, could you increase this

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number for 2019? Where do you see an opportunity to accelerate expansion, in markets where you don't have a footprint? Or perhaps, opening more stores in existing locations? Thank you.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Well, in 2018, we decided to address the stores that needed more investments. And then, we focused on the food category. This was a decision that we made in 2018. And now we are measuring the impact in terms of volume growth and to see the results. And obviously, an important work of this new investment has to do with the volume that we negotiate with our suppliers.

Regarding the opening of stores, Ruben, well we have a pipeline, and the pipeline requires some time so we can get the approvals and so on and so forth. And our pipeline ensures a minimum of 20 openings for 2019. However, when we get authorization to open a store that we qualify as extremely profitable, extremely good, we won't take too long to do the work. And that's why we state a minimum of 20 stores but if there's an opportunity, we can fill in some of the gaps and do a little bit more.

Q - Ruben Couto {BIO 20636571 <GO>}

If I can ask a follow-up question regarding the expansion. You are now opening more stores in cities where you are not present in smaller regions? Or are you focusing on opening more stores in regions where you already have a store?

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Well we try to have a balance there. A balance between existing markets and its strategy not only to protect these markets, but also to tap into those markets because in our model, when we are in an existing market, we offer the same price in the competitive clusters. And about -- with the new markets, where we can offer our proposition to supply to our customers. And to have a good performance, so we are trying to have a balance.

And it's almost half in half. Half of the stores are in existing markets and half in like spots where we would open new stores to increase our footprint all over Brazil.

Q - Ruben Couto {BIO 20636571 <GO>}

Excellent. Thank you very much.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Let me give you one example. We are opening next Thursday near Belem in the city called Castanhal and two weeks later, we will open a store in the state of Mato Grosso in the city of Tangara da Serra, which is a new market for us. This location is currently served by a store which is 300 kilometers away. And then another store in the Lencois in the state of Bahia.

Q - Ruben Couto {BIO 20636571 <GO>}

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All right. Thank you.

Operator

Next question from Gustavo Oliveira with UBS. Mr. Oliveira go ahead.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Hello. Good morning everyone. Congratulations on all of the changes you're making. They make a lot of sense in our point of view. Congratulations. So still in your Atacadao execution plan, is there any condition -- I remember that we had conversations in the past when you said you have the possibility of opening stores which are smaller than the current size of stores. Is this plan being executed? Or can you start executing it? And is it independent of the profitability level, which is as high as what you are having today? Or could you perhaps have a little less, because I imagine that smaller formats could bring a slightly lower margin in the Atacadao banner. So I would like to have more color on that please.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Thank you, Gustavo. Again, the key word here for you to understand is balance [ph]. Yes, depending on the opportunities, when we have a small plot of land and smaller spaces, we have opened smaller size stores. That will not impact Atacadao's EBIT operations. So it's not just the assortment that we offer, basically, food items, but also the operation as a whole. We have our stores with their own inventory. The ammunition of the store is the inventory at the store. We don't want to change that model much. And overall, the profitability targets of the stores remain in a good balance. It doesn't change store to store. It's not according to the size of the store that we have different profitability models. No, the stores have to have the same economics that we have in all of the stores throughout the expansion plan.

In large cities, we can have stores -- closer stores with smaller sizes. We already have that, we know how to operate them. Actually since 1995, we've had some stores that were 3,500, or 4,000 square meter stores that are extremely profitable and following the Atacadao standard. I hope I have answered your question.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

So when you talk about the mix of continued stores. Do you see any change for slightly smaller stores perhaps gaining more share? Or you can see any change in the trend?

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

No I don't see any great change in the trends. There's a possibility to have these stores. We should not forget that there's no motivation for (inaudible) out of 600 kilometers from Cuiaba. There we have a purpose which is clearly distribution. What is the purpose of having a smaller type store, that doesn't make sense. In large centers, that is possible. If we have a wholesale operation that can support us, then we can have a smaller size store with more accessible delivery spend, never touching the economic model.

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Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. This is very clear. Thank you very much.

Operator

(Operator Instructions) Next question from Thiago Bortoluci with Goldman Sachs.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Hello. Thank you for the opportunity to ask questions. I have two questions. One about the outlook of margins in retail. You mentioned in the release an SG&A pressure because of your investments in omni-channel, and that these pressures should continue along 2019. What is your expectation regarding the EBITDA margin of multiformat? That's the first question.

And second question regarding the performance of the Bank. We see solid growth but we feel a pressure on margins at the Bank as well. We would like to understand this pressure. Is it 100% mix within Atacadao gaining more representation or if there is any other impact at play here?

A - Paula Cardoso

Thank you Thiago for the two questions. About the first one. As you know, we don't give EBITDA guidance. What I can tell you is that, look at 2018. Quarter after quarter EBITDA margin of retail has improved. So at this point, we don't see any reason for a different trend this year. Regarding your second question, Thiago, I need to understand what you mean about a pressure on margin, so that I can be more assertive in my answer. Because we see strong growth of portfolio, we see growth of our revenues, we see better credit quality, great efficiency in reducing expenses. So I don't see exactly what you're seeing.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

When I tried to calculate your EBITDA margin, I get your EBITDA margin and I divide it by your sales.

A - Paula Cardoso

I don't know if this is the way we should look at this in a bank. It's different than retail. Thiago, I think we have to look horizontally, how revenue growth and with what efficiency level. Looking at the EBITDA according to revenue the sales (inaudible) work. You would have to look at the whole volume almost BRL37 billion and at the financial margin. What you're getting is strong growth with strong profitability with good credit quality. For a bank, this is the best way to analyze efficiency. This is what I recommend.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Okay. Excellent. Thank you very much.

A - Paula Cardoso

Thank you Thiago.

Operator

This concludes today's question-and-answer session. We turn the floor to Carrefour for the final remarks.

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A - Noel Prioux

Well thank you very much to all. I would like to thank my team for such great results for the full year. And I hope to see you on our -- in our Investor Day on March 29th. Thank you very much.

Operator

That does conclude Carrefour Brasil conference call for today. Thank you very much for your participation. Have a good day.

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