Q4 2017 Earnings Call

Company Participants

- Belmiro de Figueiredo Gomes, Cash & Carry Officer and Member of the Executive Board
- Christophe Jose Hidalgo, CFO, Corporate Services Officer and Member of the Executive Board
- Daniela Sabbag Papa, IR Officer and Member of the Executive Board
- Luis Emilio Moreno Sanchez, VP of Multivarejo Business, Executive Officer of Food Retail and Member of the Executive Board
- Marcelo Bazzali, Unknown
- Peter Paul LourenÃ§o Estermann, Member of the Executive Board & CEO
- Ronaldo Iabrudi dos Santos Pereira, CEO and Director
- Unidentified Speaker, Unknown

Other Participants

- Franco T Abelardo, Equity Analyst
- Guilherme Assis, Analyst
- Gustavo Piras Oliveira, Executive Director, Head of LatAm Research. And Latin America Consumer Analyst
- Irma Sgarz, Equity Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Luiz Felipe Poli Guanais, Research Analyst
- Marco Calvi, Research Analyst
- Maria Paula Cantusio, Banco de Investimento S.A., Research Division
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Robert Erick Ford Aguilar, MD in Equity Research

Presentation

Operator

Good morning. And thank you for holding. Thank you, to the -- welcome to the GPA conference call to discuss the company's results of the Fourth Quarter 2017. This event is being simultaneously broadcast through Internet via webcast and can be accessed at www.gpari.com.br, where you will find the presentation. The selection of the slides will be controlled by our participants. The replay of this event will be available after its closure. We inform you that the company's result press release is also available in the Investor Relations website. This event is being recorded. (Operator Instructions)

Before proceeding, we would like to clarify that statements made during this conference call regarding GPA's business prospects, projections and operational and financial goals are based on beliefs and assumptions of the company's management as well as information currently available. Future considerations are not a guarantee of performance. They involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of GPA and may lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to give the floor to Mrs. Daniela Sabbag, the company's Investor Relations Officer.

Daniela Sabbag Papa

Good morning, to everyone. We welcome you to the GPA conference call for the Fourth Quarter of 2017. We have the main officers of the company, Ronaldo Iabrudi, Peter Estermann, Christophe Hidalgo, Luis Moreno, Luiz Henrique Costa, in addition to other officers and business officers from GPA.

I will give the floor to Ronaldo for his major considerations.

Ronaldo Iabrudi dos Santos Pereira {BIO 20052606 <GO>}

Thank you, to everyone for your interest and for being here this time during this conference call regarding the Fourth Quarter of the year 2017.

In the beginning, I would like to make a brief presentation and to express my genuine thankfulness to the board of the CBD, to the different government agencies of the CBD and mainly to Jean Naouri, that is the Chairman of the Board and together with the government body, the Via Varejo -- the board of Via Varejo during the past months and, I would say, even years have followed and discussed together with us matters regarding the changes that we said yesterday -- presented yesterday to the board and there was a consensus regarding the approval from the board. And therefore, we are very fortunate and very happy with the new outline of the company. This is a matter that I dealt with together with Peter, Christophe and FlÃ¡vio and with most of you last night. And now we will have the opportunity during other occasions to deal with this subject.

The subject of today is our results conference call. And very briefly, before I give the floor to Christophe then Belmiro and Luis Moreno, I will make a brief presentation of these results. The year that ended that was 2017 and as the former year, this was a highly challenging year. The advantage was to drop the costs. But in addition to this, the macro indicators evolved not very significantly in terms of unemployment, in terms of consumer trust, I would say this wasn't highly accessible and significant. Now on the other side, we had deflation that actually began during the middle of the year and I believe that increased more during the last quarter. We had over 5% of deflation that, in the short term, affected our Multivarejo business and also our AssaÃ business.

Despite all of these factors, I am totally convinced that the results that we are presenting show an important evolution, especially when we historically analyze AssaÃ that underwent moments of crisis during 2015 and 2016. And I would like to highlight and review 3 points that in my view draw our attention. The last one, Multivarejo, we had a systematic evolution when we analyzed the market share of Multivarejo during the past months. And this is the result of the effort of the team that is sitting at this table and will continue. And this result -- or this is a result of the valuable work, we have observed continuous profitability from PÃ£o de AÃ§Ã°car because when I see other retail markets, the PÃ£o de AÃ§Ã°car brand is a brand that has a differentiated profit. So this is for Multivarejo.

Second point that I would like to talk about is regarding our strategy. And something that we call portfolio administration leads to conversions, new stores, performance of stores.

If we analyze AssaÃ value, we will show it in details that this was a year -- it was a record year of new stores. This could be conversion, we had 2 pilot stores in 2017. And we're also talking about new units and record years of conversions and being assertive in these conversions because the stores that were opened, be it organic stores or conversions, presented results and returns much quicker than what we had planned. AssaÃ grew over 28% and already represents 40% of our Food business. Therefore, this is a very important point.

And I would also like to highlight a factor that I believe of great importance. Who analyzes this carefully sees it clearly. But it's through everywhere that we look, in Multivarejo when we carry out a conversion, we have BRL 2.5 on average in AssaÃ with a profitability that is significantly higher than we go to AssaÃ. What does this mean actually? Well this means that GPA has reported a very important gain. And every time that we have the opportunity, we will continue following this direction.

If we see on the other side, when we withdraw this revenue from Multivarejo. And we were certainly aware of this, we dropped the size of Multivarejo. It's something that would imply and reduce the expenses of Multivarejo. But we haven't been able to do 100%. And we would -- what we would have liked to do throughout 2017, the revenue drops when you close a store. And you have expenses. And suddenly, this becomes a target of Peter, that will immediately take over while Moreno is working on these 2 strategic projects.

Now a third point and the last point that I would like to highlight here would be something that we call digital transformation. I believe this shows the evolution of our business. And that also shows the differentiation of the retail market in Brazil. GPA has always been an innovative company and has always shown it through operation and now through our digital transformation. We do understand what has been done and if we have done just one part, we -- in terms of kilometers, we have only displaced ourselves a number of meters. And Luis Moreno will deploy this project because in our view, this is a project that has to be nimble and that he will be dedicated to this project, together with the private label. Peter will lead this project in order to deploy it at the speed that is expected.

So after highlighting these 3 points that I believe are the most important for Multivarejo, that is store conversion. And with the results that we've obtained in AssaÃ and the importance of all of this and the program of digital transformation. So before giving the floor to Christophe, I would like to highlight that we will give you a guidance. And this guidance is a view of what we see for the year 2018. Christophe has the mission of presenting this view to you. And what is important is for you to be aware that this was totally agreed upon with the team that is on this table, Peter, Belmiro and all the team that will lead the company from here on.

And I would also like to strengthen that the priorities from here on are consistent with what we've had until today. So our focus is on the full business. We have strengthened -- we've strengthened this during the past meeting that we have with the board with sustainable growth of this business. And we will continue focusing on our cost structure. We adapted to this new reality and to -- with the new size of the company. Due to the new conversions, we will continue investing on formats that bring us greater returns. And everybody knows that it's AssaÃ, that is PÃ£o de AÃ§Ãºcar, that is PÃ£o Minuto, digital transformation as a way of talking directly with our customer in a safe fashion and obviously, as I always say and I have no problem in repeating myself, a continuous and a constant honing of the governance of our company. I continue understanding that our points that we have focused on are very important. But governance gives reassurance to long-term results.

At the end, I will make my final remarks to conclude this conference call. But now I would like to give the floor to Christophe so that he can deep dive inside our results. Thank you very much. Christophe, you have the floor.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you. Thank you very much for participating in our call this morning.

We are going to show the main financial highlights. I would like to say that in 2017, in all the conditions that we have experienced them, it was a good year for the Food business because we achieved net income of 1.4% over sales, BRL 610 million. We converted the losses from 2016. In this evolution, Multivarejo is, again, a profitable business. And AssaÃ-has almost doubled its net income in the period. It was a good year as well because from an operational point of view, all our businesses have shown growth, 20 bps in Multivarejo, 144 AssaÃ, one more year where we've reinforced our financial infrastructure, net debt below 0.2x our EBITDA. And it was a good year as well because we've started in 2017 to yield the positive effects of all the transformations that we have had in previous periods.

Now going into the presentation, I'm going to start with sales. We have already shared them with you in the beginning of the year. Food business, we had BRL 12.5 billion in the Fourth Quarter or 6.8% growth, 3.5% in same-store concept.

Deflation hit us hard. The EBITDA in the Fourth Quarter grew 1.9%, whereas in the last quarter of '17, there was a decrease of 5.1% with an important wide range of points. Even so, sales have shown positive trends towards more customers and higher volume. We had a 40% increase or 8.4% in net sales. The main highlight for AssaÃ where we had gross sales of BRL 20 billion in 2017, with significant growth of 28% and more than 11% in the same store.

We opened 20 stores, 5 organic, 15 conversions into AssaÃ. And as such, it amounts to 43% of our Food business sales. And it has been getting stronger and stronger and winning more market share.

Sales of Multivarejo had a somewhat negative performance in the last quarter because of the deflation of food categories and also impacted by the renovation of 50 PÃ£o de AÃ§Ã°car stores in the quarter. In the year, Multivarejo net sales were BRL 26.2 billion, impacted primarily by reduction of sales areas, with transfers to AssaÃ. The growth of same-store was still positive, 0.7%, with good recovery of Hiper store and also good performance of PÃ£o de AÃ§Ã°car banner.

Now going into the results and talking about gross margins. It's important to emphasize that in 2017, I see a mass mechanics and dynamics change, going from a presumed or assumed margin to actual margin. And it has impact our margin. Recurrent margin of approximately 60 bps per quarter. And this is something that we are going to account for in 2018, which is something that we have to analyze on a gross nature. Part of it could be vested on competitiveness. But the gross effect is of 6 bps. And it's going to be accounted for as such.

The second effect that brings us the changing dynamic is the nonrecurring effect before 2017. It has positively impacted the Fourth Quarter in BRL 360 million, with nonrecurring values all to Multivarejo, BRL 40 million to AssaÃ, with a specificity somewhat complex. At AssaÃ, we have recognized BRL 114 million in the last quarter. But this BRL 114 million is recurrent from an annual perspective because it refers to the First Quarter of 2017, somewhat complex, nonrecurring in the quarter but recurring from the year perspective. Once we've made it clear of all the new dynamics, the normalized gross profit after nonrecurring exclusion was BRL 2.8 million, with a 22% margin. Both businesses, AssaÃ- and Multivarejo, were stable compared to the Fourth Quarter '16. Commercial competitiveness in both businesses has maintained a very sustainable level.

Now going to detail by business, I'm going to talk about the results of Multivarejo. Gross margin of 26.7%, stable level compared to the previous year and aligned with the levels we have presented in the year. G&A had a slight increase of 1.9% in nominal values, a percentage of sales of 22.4%, with a negative impact by extraordinary elements. Strong deflation in sales even though intact cost, the effect of the conversion of Hiper stores and finally the conversion of the renovation of 50 PÃ£o de AÃ§Ã°car stores in which sales were impacted. But expenses were still there.

Adjusted EBITDA for Multivarejo and normalized with credit reached BRL 328 million, 47% margin. We estimate that the combined impact of deflation in sales, in margins as well as SG&A were of approximately 100 bps in the quarter. There were additional extraordinary effects, such as the fire in the Osasco distribution center, which had a negative impact of about 20 bps.

In the quarter, too, we had also additional expenses, operational expenses, BRL 173 million, regarding 3 elements. First, the effect of the fire in the distribution center of Osasco, BRL 61 million; the second effect, the contingency and the provisional of tax contingencies, BRL 77 million, they allude to the years 2014 up to 2018; and finally, net effect of positive and negative impacts of BRL 35 million.

Well to close my comments about the results of Multivarejo, adjusted EBITDA reached a margin of 5%, 20 bps compared to the previous year.

Now talking about the results of AssaÃ and also excluding nonrecurring effects, we reached a gross margin of 15.9% in the quarter, stable compared to the Fourth Quarter of '16. The effect of deflation has meant a lot even though partially, it had been compensated by the solid commercial dynamic we have at AssaÃ and the greater share of individual buyers and the effect of quick maturation that we have observed in the stores, especially because of the conversion of stores.

The expenses reached 10.7% in the quarter, easily above the previous year. And it can be explained by the record expansion, reaching in the quarter 13 new stores.

Adjusted EBITDA had a 6.5% increase, 5.3% margin in the quarter. Adjusted EBITDA in the year reached BRL 1.29 billion, 68% increase; recurring margin of 5.6% and an evolution of 140 bps compared to the previous year.

Now in terms of investments in the quarter, we totaled BRL 354 million in investments, new openings, 13 new stores in AssaÃ, as I have said. From an annual perspective, CapEx reached BRL 1.35 billion, 9% above the previous year.

Now going into Slide 5. We can see the performance of our net performance and adjusted of receivables. The debt had a decrease of BRL 162 million compared to the previous year. In 2017, we had a partial level of leverage from the previous year, approximately 0.2% the annual EBITDA.

We also confirm a solid financial position, with available cash of BRL 3.8 billion; a balance -- non-discountable balance of BRL 400 million in addition to BRL 1.1 billion of credit lines already approved, that have been approved already and confirmed. So our financial results had a reduction of about 20%. And we start the year in 1.6% as a percentage of sales. In other words, a very significant improvement of 60 bps compared to the previous year.

Before we go into the outlook for 2018, I would like to update you on 2 key topics. First, contingencies, 1 more year where we are going to have significant reduction of contingencies, a total reduction of BRL 640 million, discounting the effect of indexation of BRL 715 million. In other words, a total reduction that goes beyond BRL 1.3 billion in the year.

Secondly, another issue that I would like to address are the process of -- with synergy, together with Ã‰xito. And we have obtained savings from different initiatives. $70 million have been gained by GPA this year as a result of that.

Now going into our strategic priorities and our future perspectives, I'm going to emphasize our outlook for the year. In terms of sales, 2018 is expected to be a year where we are going to have the impact of deflation still being felt in the first half of the year. Until May or June, this is going to be the case. And progressively, in the second half of the year, we are going to resume the levels of inflation. AssaÃ is expected to grow above inflation rates. And we also expect Multivarejo to be in line with inflation rates, both gaining market share in the period.

In terms of operating advantage and EBITDA, we expect Multivarejo with a margin of 6 bps above the rate or 5.6% of EBITDA because of the lower impact of deflation, 30 bps of favorable impact compared to 2017. Also, because of lower operational impact of the renovations of new stores, a 10 bps impact. And we are also going to have operational improvement especially in terms of logistics of about 15 bps. What is not included in our perspectives are the effect of a potential project of -- a change in the nature of supermarket, the upside initiatives which haven't been considered here.

In terms of AssaÃ, we expect to have improvement in our EBITDA margin. 20 to 30 bps is our projection, also considering the lower effect of deflation and also as a result of the natural maturation of stores and also loyalty building of our customers by offering additional financial services. What we haven't included as well is the positive impact of the card PassaÃ launched at the end of last year. Even though it works great, we haven't considered them in our outlook yet.

As a result of the new tax framework that we have already talked to and increase in our activities, we are ready to deal with new tax credits for Multivarejo. Potentially, we are going to exclude that partially or totally, BRL 369 million. And this is the forecast that we have had for AssaÃ in the second and Third Quarter of -- initially considering the second and Third Quarter of '17.

In terms of CapEx, we expect an improvement of the working capital and the financial results and financial results that won't be above 1% of sales or 6 bps of reduction compared to 2017. Concerning CapEx, we expect to invest BRL 1.6 billion, focusing on new openings of AssaÃ stores and also following our initiatives of renovations of PÃ£o de AÃ§Ã°car stores. The program of synergy has been very successful. And it's going to bring positive effect, $70 million in '17. And we expect to increase this number to $85 million in '18 or $15 million more than the previous year.

Well to close with the financial comments, I would like now to invite Luis to talk about the performance of Multivarejo. Thank you.

Luis Emilio Moreno Sanchez {BIO 1902996 <GO>}

Thank you very much, Christophe. During the Fourth Quarter of 2017, the sales of Multivarejo was BRL 7.1 billion, with same-store performance of minus 0.6% and with an EBITDA margin level that was adjusted of 4.7%.

The sales in the Multivarejo result during the Fourth Quarter were impacted through the following factors. Number one, a strong food deflation of minus 5.1%, totaling to up to minus 7.7% in Christmas products; positive inflation in expenses line like fuel, insurance, health insurance, power and water, where inflation cost was about 2 digits. The inflation of our occupation costs were around 5%. And this generated a result that was calculated at 110 bps.

The second impact was the PÃ£o de AÃ§Ã°car retrofit that took place in the Fourth Quarter. 50 stores were retrofit, 39 through the light concept impacted during 45 days and 11 stores in the full concept impacted during 90 days. These retrofit stores in the full concept represent over 10% of sales of PÃ£o de AÃ§Ã°car brand. During the refurbishment, they impacted the sales of minus 16%. This impact in terms of Multivarejo, EBITDA is estimated at a level of 10 bps.

The third impact was the accident that we had in our distribution center in Osasco on December 27. We would like to restate that we did not have victims because our contingency plans for this type of events worked perfectly. We also provided full support to the neighborhood. And subsequently, we created a logistic contingency plan to guarantee the continuity of the operation using a neighbor DC where AssaÃ operates. Thanks to the engagement of all our teams with market flow, we reestablished this at record time. There was no relevant impact in the store operation because they were stocked for the end of the year. The impact for GPA is of the level of nonrecurring BRL 10 million, representing 15 bps of EBITDA already considering the results of the Fourth Quarter.

Now we will go to the complete year. Now the highlights for 2017 were the following: number one, an improvement of profitability of bps (sic) (20 bps) and adjusted EBITDA despite the migration of channels and strong food deflation during the Third Quarter of minus 4.5%; in Fourth Quarter, minus 5.1%. Now a gain of market share of 60 bps throughout the year in the same-store concept in retail.

Now the optimization of stores with 16 hypermarket that transformed to AssaÃ, adapting ourselves to the market transformation. We launched innovative concepts in nonfood: number one, textile in synergy with Ã‰xito Colombia that already have 32 stores and store-in-store concept inviting specialized partners that understand their category, to be part of our nonfood proposal within our stores, integrated within our layout. In 2017, we already have a number of stores and partners cooperating. And we will broaden this movement in 2018.

Fifth, the execution of the first stage of our digital transformation and customization of the relationship, together with our customers. Greater highlight was to launch Meu Desconto application in 2017, reaching 3.7 million downloads until the end of December and 4.1 million up until the date. We also entered the installation of free WiFi in all of our stores that are already operational with new functionality in the applications, like for example, Meu Caixa and Meu Lista de Compra. Meu Caixa, My Cash, is a functionality that allows the customer to schedule their time at the checkout line so they don't have to go through a line. This has been used by over 100,000 customers. My Shopping List, based on the shopping history and frequency, generates a suggested shopping list facilitating this task to our customer. The customer can change their list, adding or excluding their products. They can queue it in, they can -- scanning the bar code of the product or through voice.

Sixth, the increase of productivity in our stores, also in our DCs with the optimization of the number of the employees that are leveraged by 2 products: the deployment of poly -- of multitasked employees. And over 12,000 employees were trained to deal with cash registers during peak times; and variable remuneration program according to the productivity that now encompasses the 55,000 employees that work in our stores. Over 50% of the stores reached the minimum level of increase of productivity of 3% to receive this incentive. Reminding, the productivity cost, it is calculated by the number of products sold per work hour.

Now the same-store concept, we had a reduction of 3,500 employees this year in addition to the 7,000 last year. These programs also allowed us to have a significant increase of engagement with -- of our employees with a positive increase of 10% as the result of our engagement research.

I would like to show the main highlight for our business units. Extra Hiper was the format with better sales performance for same-store, leveraged by the performance of nonfood throughout 2017. PÃ£o de AÃ§Ã°car, we implemented a plan based on the principle of how a more inclusive format without being exclusive. This plan was articulated through our pricing communication, service strategy and also the renovation of active assets. PÃ£o de AÃ§Ã°car ended 2017 with 15 -- 50 stores refurbished. The refurbishment will continue in 2018 with other 24 stores with the full concept. The main highlight was the growth of volume in a consistent fashion during the third and Fourth Quarter. Also, with reward programs for customers, like Jamie Oliver program that was very successful, the customer profile of PÃ£o de AÃ§Ã°car showed a quick adherence to our digital transformation of individual relationships. And Meu Desconto is already present in the tickets that represent over 20% of sales of PÃ£o de AÃ§Ã°car.

Now Extra Super was the strongest -- was strongly impact by the sales of commodities and perishable goods in Proximity format, which started in 2017, with the new business model simplifying the operation that is already yielding results in expenses.

Now I would like to highlight the main priorities for 2018 to continue with the digital transformation and individual relationship with our customers. And as of March 1, we will have a new version of the application of the loyalty program that we will call My Awards, Meus PrÃªmios. Each customer will be able to win monthly awards, reaching their purchase target. The benefits for the customers are very important in their card partnerships, with a number of companies that were invited to be part of this digital transformation. The main objective is to encourage our customers to concentrate their supermarket groceries in our stores, like customers could receive a coupon of BRL 100 to buy online from (Matuda) or from Etna or also the credit for taxi for 99Taxis. This reward system also integrates virtual and physical store. And you can reach the reward independently regardless if you buy in a physical or in a virtual store.

The second priority, to strengthen and accelerate our brands. We believe that this is a relevant tool of differentiation and competitiveness. In order to attain this, we have strengthened our team of exclusive brands. And we are using a new model of management together with our suppliers.

Third priority is to broaden store-in-store concept with new partners. We already have 5 closed concepts and 10 others that are in conversation. And we will pilot these rollouts in 2018.

The fourth priority is to continue improving productivity, leveraging new possibilities of labor reforms. Within this new working model of 12x36, we have signed an agreement with the labor union of SÃ£o Paulo that represent an expressed numbers of our stores. This model consists of a journey of 12 hours. And you rest the next day. There is high adherence from our employees because they can be responsible together with their family. And there is less time of displacement with transportation. We would like to continue with our store portfolio optimization with additional conversions and flag evolution to adapt ourselves to our market.

Now I give the floor to Belmiro from AssaÃ.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you very much. Thank you, all of you who are attending our call. As Christophe has already emphasized, in the Fourth Quarter, there has been an increase in the rate of deflation, which started the second half of year, very high rate especially compared to the previous year. Deflation was 5.1% in the Fourth Quarter. And of course, it generates a number of challenges to maintain growth rate within such deflation rate.

So the quarter of AssaÃ in the Fourth Quarter was very significant, 27% growth despite 5.1% deflation rate. This achievement is a result of the dedication of our team commercially and operationally. We have created new commercial strategies. We reinforced some actions and campaigns, especially for the birthday of the store and Black Friday as well. We try to come up with new solutions at the point of sales and some cooperated initiatives with our suppliers because the deflation, despite of what should be considered, it's not only on food items. We noticed on the Fourth Quarter an extension of the deflation rate also to industrialized products, hygiene, cleaning. And also, general merchandise have also been impacted as part of the deflation rates. And we have been working with more customers and suppliers ready to change the mix of purchase.

In the Fourth Quarter, we had same-store growth of 10.8% as a result of the natural maturation of stores but also increased gain of flow of customers and volume. Even excluding the effect of converted store of Extra, same-store, AssaÃ had 8.3%, very significant growth with a 5% deflation rate again. And it results from increasing volume.

The new tax framework PIS and COFINS has allowed to maintain the focus on competitiveness. So we are highly competitive in the Fourth Quarter and managed to deliver 11% -- or 10.8% growth of same-store and 27% -- 27.5% in the common base, BRL 1.3 million of increase in sales with no impact of inflation compared to the previous year. Albeit very favorable operationally compared to the previous year, our fiscal credit were not used. The impact we had excluding BRL 114 million that we had amounted for in the quarter resulted from the expansion in growth. We had an expansion throughout 2017, which was a record, lots of new stores, 29 new openings and one reopening in Curitiba. It was a completely new -- completely changed in the stores like a new store. So it has really had an impact on margins. Deflation has also helped bring the margins down but 0.2% variation compared to the previous year.

EBITDA, the expenses showed stability. The variation we had in expenses resulted from preoperational expenses for opening of stores. There was a concentration on the Fourth Quarter. Our team had 9 new stores within 35 days. So short time, in 2 new states. We opened a store in UberlÃ¢ndia, our first operation in the state of Minas Gerais. And the operation of 3 units with the opening in -- of AssaÃ in the state of PiauÃ. So we had operational impact. And nothing that had really impact the results.

So with this, credit had a 85% progression. And it's also important to emphasize that the Selic interest rate was important. But our results were benefited by better stock inventory management. Our team worked very hard to reduce inventory levels, especially here in SÃ£o Paulo and Rio de Janeiro. So we had 65% result in financial results, getting 1.1% of sales, financial growth of about 0 and the net income, 63%, BRL 146 million to BRL 156 million in the last quarter.

It was very much aligned with the year 2017 as a whole even though it didn't include the main event of the year, which was the deflation. The first and Second Quarter of '17 was 2 (operations): redeeming inflation rates. And the deflation increased in the second half of the year. So 27% year-to-date and has a different mix of the different quarters. It was highly satisfactory considering the deflation rate. AssaÃ has BRL 20 billion in sales, 4.3% via more sales compared to the previous year, (EUR 1 billion). When we exclude the deflation of the period, the real nominal assets would be BRL 5 billion, 20 new stores, started operating in 2 new more states. We had a project PassaÃ card, very new projects, 75 stores. The project is itself 2.5 months long when we analyzed December '17 but focusing. And we have more than 10,000 cards sold only in this period. It has gained more customers. The average ticket has got a 60% increase compared to the average ticket. The main advantage is that customers can buy in wholesale prices regardless of the number of items purchased. So it favored the end consumer. Sometimes they don't need more items. But they also have small -- traded small business operations. So they have a credit line to some extent, a professional credit line for small business owner, someone who got unemployed and started having his or her own operation.

Our growth has resulted from the new tax framework, reducing the pressure on the margins; our discipline; our strict control of expenses; the dedication of our team to really deliver such excellent results in opening new stores. We have 31,000 employees as opposed to 25,000 in the previous year. 6,000 new people were hired. AssaÃ closed the year to maintain sustainable growth in 2017 and '18. As I'm going to show you, 1.2 million hours of training, we have new programs to get closer to our main customers. We have campaigns for Black Friday, for the birthday of the store. We have created a new mechanism to serve small corporate business, helping them on inventory control, cash flow management, a number of technical courses that we are going to offer to them.

For the first time, we have gone beyond BRL 1 billion in EBITDA, 5.6% as opposed to 4.7%, analyzing, of course, fiscal credit. The result of our credit and also some improvements that we have had, inventory control and logistic and direct supply of store, together with the new interest rate had a 49% decrease, net profit of BRL 515 million, 53% conversion of EBITDA into net income, very characteristic of the wholesale model that we operate in.

For 2018, briefly sharing with you our expectations. We have -- we are going to maintain that we are going to have a deflation rate in the first half of the year. It's going to be persistent in the food items, not only basic agriculture-based products. But it's going to invade all categories. So this has been aligned with what we expect, starting 3% in deflation. And this effect is expected to go until the end of the first half, which is really going to impact the prices compared to last year.

We expect to have an increase in competitiveness with local players that have been operating in different states. But the model of AssaÃ is very well accepted regardless of the region. So our outlook for 2018 is to maintain our performance, our

growth in same store and also in the expansion with new stores, similarly to what we have had in previous years. We expect to have 20 new stores. Differently from last year, they're going to be more organic growth: 15 organic stores and 5 conversions on hypermarket. We have 10 construction sites ongoing. The first store in Itabaiana beginning of March; next, the second store in Manaus in the Amazon, very important region that we are coming and the first -- we had one such store 1.5 years ago, 10 construction sites and stores that will be opened by the end of the first half of the year and then beginning of the second half.

And now, let me give the floor back to Daniela Sabbag.

Daniela Sabbag Papa

Now we can initiate our Q&A session. We will initiate our Q&A session.

Questions And Answers

Operator

(Operator Instructions)

Our first question from Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

I have 2 questions. I would like to pose a question to Peter because he's coming. I would like to understand, I believe, that your actions here are very clear regarding your targets. But I would like to know from Peter, within the dates that we had with the board throughout the process of the change, in his mind, what kind of mandate does he see? I know you're focused also on cost reduction. But I would -- as you've been part of the board of the GPA, what are the main points that he should tackle in Multivarejo because this will be his main responsibility? This is one question. And my second question is regarding your guidance. I believe that deflation prospect is clear for the first semester. Belmiro just talked about a profit of 3% of deflation in the beginning of the year. So within the 30 bp rise in Multivarejo and AssaÃ, I would like to know, what would be the deflation of the first semester or the inflation throughout the entire year that is driving your guidance?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Guilherme, thank you for your question. I would like to highlight 3 points of GPA food. Ronaldo just stated this very clearly in his opening session. Number one, we will continue investing in formats that bring more profitability to the company. This is something that we will continue focused on. And we will work continuously on this. Number two would be growth through digital transformation. This is -- there's no way back from this. We strongly believe in this action. And I will count with the support of Luis Moreno throughout this process. And he also strongly believes in this transformation movement that we will accelerate, especially during the upcoming period. Three, to adapt our cost structure to the size of each one of the businesses considering the growth that we expect for the future. In nonfood retail, Multivarejo, I think that an important point that we discussed yesterday is to support Flavio's team in Via Varejo to continue the strategy of digital transformation. As you are aware, we built this together, the entire team worked on this strategy. There is strong commitment from the team on this project and there's total alignment of Flavio with this strategy and these guidelines. I will be right beside the Via Varejo team supporting these actions. In Hiper food, where Hiper -- nonfood Hiper market, our focus is to continue growing as we have been and to focus a bit more on profitability. These would be basically our 3 short-term challenges. And we will have the opportunity to talk about this subsequently as the systems are deployed.

A - Unidentified Speaker

Now regarding the second question. Regarding our expectation of 2018, our guidance. We expect a yearly inflation of 3.5%. And this inflation, we will start the year with strong deflation of approximately to what we saw on quarter 4. This is a deflation of 4% and gradual recovery undergoing a period of inflation during till the second semester. And Belmiro mentioned that the yearly inflation would be 3.5%, 4.5%. This is what we're considering. You also have to take into account that we expect strong deflation on S1, the first semester and lower on the second semester. So the second semester gives us more activity because of seasonality. So the recovery of the inflation during the second semester will also help us.

Operator

Next question, Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Well we -- I would like to understand regarding the capture of margin of 2018. What you see in terms of the competitive environment, especially when it comes to promotions, we see the market with good performance. Nevertheless, the competitor is more aggressive. How do you see -- what is your outlook for this environment in 2018, especially in a time of food deflation, where operational leverage is important? And question two, we've been asked by local investors regarding Via Varejo negotiations. Are you making progress regarding this negotiation? What is the -- what do you believe the outcome will be here?

A - Unidentified Speaker

Giordano, I'll start by the second question. And I believe that each one of the brands can talk about their competitive environment. Well every year, we do what we did in 2016. And as we did in 2017, we analyzed the main assets. And we outlined any type of priorities regarding the company to date this year together with the board. In November, we told them that we are convinced that we have to focus on Food Retail because we believe that we have major opportunities of growth here as we have seen. In AssaÃ, I believe that we had 20% of share in food it's -- now, it's 40%. We have made strong investments with PÃ£o with store retrofits. And there are more investments to be done this year, even in AssaÃ. Therefore, our focus is on the Food segment. Peter spoke about the effort of digital transformation, our private label. These are things that we're going to bring to the retail. And we believe that we have made progress in this process. So we continue focused on the food sector and the sales process of Via Varejo is still ongoing. Belmiro will answer the first question.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Now regarding margin, we also have to remember that 2017, when you have high deflation, you have impact-- the, for example, your incoming drop of prices, your margin will be through the new price of the marketing. You lose margin. In 2018, our stocks are renewing, we are maintaining our deflation margin because this is something that came from the end of 2017. So number one, there is no longer loss regarding our stock with low cost and there is an expectation to improve the inclusion -- inflation rate during the second semester. Now this has a mechanic effect in the margin. Now in addition to this, we also have a matter regarding store maturity. We will have new stores in -- with AssaÃ. But mainly, we already have an adjustment of commercial policies so that we don't have to deal with deflated stocks. So with this, we expect to have a gain of 0.10, 0.2, that is our guidance for 2018. So we wanted the -- we're dealing of high inflation of '16, deflation of '17. So part of the improvement of the financial result comes for this stock management. We have a smaller inventory. So the impact of last year to 0.20, 0.30, will not -- we will not see this, this year, because inventories have been adjusted. In case of Multivarejo, the food deflation generates certain dynamic amongst competitors because you try to offset this deflation with volume. There is a reaction to balance this with volume. Nevertheless, very prudent because this could generate compression. So we see initiatives back and forth going back to the same level of competitiveness of the past. In addition to this, our competitiveness is no longer only measured in a massive way with -- together with our competition and regarding price indexes. Now our promotions are customized. Therefore, we cannot measure an open index together with our competitors. And we are focusing more on personalized reward toward customized customers.

Q - Joseph Giordano {BIO 17751061 <GO>}

Now going back to the strong focus on AssaÃ, the guidance of 20 new stores. So how is it going to be between organic and conversion of stores?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Well as I've said in my speech, right now, our goal is 20 new stores, some are still deciding whether there'll be conversions or not. But right now, there'll 15 organic stores: 8 of them, under construction; 4 of them in preconstruction; and 5, conversion of stores. This year, we expect to have more organic stores than converted stores. Thank you.

A - Unidentified Speaker

We are also working on identifying that because five of them have been already detected. And we are considering the possibility of more stores to be converted. But right now, what we have planned. So far, is what Belmiro has just said.

Operator

The next question comes from Marco Calvi ItaÃº BBA.

Q - Marco Calvi {BIO 19854632 <GO>}

My question is concerning the retrofit stores of PÃ£o de AÃ§Ãºcar. Can you share with us any data about improvement in sales, margins or additional sales, improved margins in those retrofit stores.

A - Marcelo Bazzali

This is Bazzali speaking. Those stores were reopened between December 20 -- 15 and 21, brand new. But we have been following up indicators of sales, volume, tickets and also some new sales such as coconut water and orange juice and (inaudible). So it's all within our expectations. Part of that concentrated in the CDO SÃ£o Paulo, there is a natural reduction of customers during January. So we have decided to have stronger actions as of February. So February, March and April, we are very confident, the wellness categories -- perishable wellness categories that we have concentrated on the entry port of the stores have been growing significantly, impacting sales and also margins. And perishables have a higher rate than grocery. So that's within our expectations. We have already noted the impact that it had on the customer side. But 80% of our sales are monitoring customers. And the customers haven't abandoned also. They are just impacted because some of the stores were being renovated. So naturally, the sales are going to pick up again and going to reach the levels we had initially forecast.

Operator

The next question comes from Gustavo Oliveira, UBS.

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

My first question is about AssaÃ, Belmiro, to try to understand the guidance evolution. In the Fourth Quarter, the margin was 5.3%, one of the lowest margins that you ever had in the previous year, 5.6% was the total for the year. So with this improvement for 2018, can you already see it happening the First Quarter '18? Or do you think that the deflation of food items will still be a strong effect on the first half of the year? Because the pressure on the Fourth Quarter was really beyond any expectation? So please tell us about this perspective. So you have 5.6% margin and 5.3% in the Fourth Quarter. But you were also trying to get an expansion. So it seems to be a very bold plan for 2018?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you for the question. The margin of the Fourth Quarter, when we exclude the effect of the deflation, it had an impact because of the higher deflation. As we've emphasized, the price of goods go down. And you have your inventory, in-house inventory. And you have price that's based on it. And we focus on small traders, small businessmen. So if there has been a 10% decrease in milk prices, we have to adjust the final price to the consumer. And it has an impact on our margins inevitably. So the margins of the Fourth Quarter reflect the impact of deflation and also the impact of our expansion plan. Two new states -- going into a new state means greater margins. So UberlÃ¢ndia and Teresina. In 2018 -- and we cannot share anything else with you. But we expect that the geographic distribution will impact less our plans. We are concentrating more on states, where we already have our brand and our banner. And we don't need any aggressive campaigns in the market. Of course, we are also considering that. When we get to the second part of the year, we are not going to have deflation over deflation. Deflation over deflation naturally impacts a lot and that is not going to happen. So that's going to be better. So it was very prevalent on the third and Fourth Quarter. And as Luis Moreno pointed out, when you have deflation rates to grow at our rates in same store, which was 8% with 5 deflation, it means that we had an increasing volume and flow. And it was significant. When we analyze the percentage of the margin, well, we have an adjustment for this decrease in margin but having that we made this investment and maintain the levels of 2% and 3%, what we would have had in cash margin was a loss and a more significant loss. And there is a great difference between the deflation in food items what we felt and the inflation that we have in expenses because health care plans, electricity and taxes there was no deflation in expenses. So this adjustment was required. Cash margin and cash EBITDA and the volume of results is better. But we have an effect of the total percentage, giving us the impression that this was not in a certain policy. But it was, in our opinion. In 2018, things are going to be different. 2017, we had to get adapted to the reality to go from 11% inflation to 5% deflation. Now we expect the other way around. We expect the opposite to happen, really, having an improvement in negative % as guidance. There was also a pressure because we were selling more to end consumers, more than corporate, even though small corporate.

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

Do you think that this can be compensated in 2018? Or do you think this is going to be an effect that's going to be there. And you have to get your gains from somewhere else?

A - Unidentified Speaker

Sales to end consumers means higher margins because you have an increased flow of consumers and as we have 2 prices, AssaÃ and other competitors have that. We have one price for wholesale, another one for retail. So more consumers means more sales with a 2percentage point of margin above corporate sales. So having more consumers as we had in '16 and '17. And will be maintained in '18, will not have a negative pressure on the margins. Quite the opposite, it will be positive because the end -- the final price is higher than for wholesale.

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

One last question concerning Multivarejo. The pressure on margins that you see in Multivarejo and we've seeing in (inaudible) et cetera, is it more in Hiper Marcato or PÃ£o de AÃ§Ãºcar? You've converted many stores of Hiper Marcato, if you have converted some of the stores with lower margins, maybe it would have improved your final margin. I know there is not a direct correlation because some of the stores were being converted because the business plan would make sense because you have a better return on investment. Regardless, cost pressures that you have noticed in Multivarejo, is it just on PÃ£o de AÃ§Ãºcar banner? Or is it also on Hiper market as a whole, Extra Super and all of them? So I want to understand that on a format perspective.

A - Unidentified Speaker

The pressure on expenses is very similar in all the different formats. And it's related with the inflation on expenses, health care plan as we've heard, electricity, water, utilities overall. So this is a given, all these different formats are -- have expenses close to 2 digits. And it means additional pressure together with a full deflation. So there is enough pressure on top line sales. And we don't have that kind of correspondence on expenses. So in terms of unit costs of the expenses, it means high impact. And it impacts all the different formats. As Ronaldo pointed out, PÃ£o de AÃ§Ãºcar has maintained its profitability rate. Usually at higher levels compared to the Multivarejo other formats.

Operator

Next question, Franco Abelardo, Morgan Stanley.

Q - Franco T Abelardo {BIO 17416219 <GO>}

One would be Multivarejo margin guidance. I believe that your figures are conservative, especially when you see greater share of PÃ£o de AÃ§Ãºcar with a higher margin. Do you believe that there should be a better result now connected to this regarding the LatAm synergies. A, we had $85 million here in Brazil. And I would like to understand where this value fits in. Because if we see margin, this would be 1percentage point within the Multivarejo brand. So it's not only margin, there is something regarding top line. But don't you believe that we should have a more positive guidance because of Multivarejo and its greatest margin? Or do you believe that the margin of Multivarejo should continue lower than that of AssaÃ? I know that there are a number of questions in one. But that's my question.

A - Unidentified Speaker

Regarding Multivarejo margin guidance, as Christophe detailed, the aspects that would contribute between 50, 60 bps. And he explained that we have not contemplated the potential upside of PÃ£o de AÃ§Ãºcar retrofit, although we will continue with the retrofit of these stores in 2018. 24 stores -- all these 24 stores present a negative impact during the refurbishment and a positive impact after the refurbishment. In 2018, we will capture the refurbishments of 2017. This is not included in the guidance. Now regarding the refurbishments of 2018 we'll have a neutral impact or a slightly positive impact. The fact that we measured synergies, it's not a P&L. It is divided between G&A, margin sales, CapEx. So we're talking about all the cooperation efforts that we ensemble that do not -- you won't necessarily find this on the normal profitability. Because this spreads, P&L, this impacts the CapEx, there are lots of synergies that come from CapEx. And additionally, many of the efforts and the efficiency that we see on a yearly basis, be it in synergy or any project, it's difficult to add this to past profit. Because what we capture in one project or another, gives us space to do other things to invest in competitiveness and project. It's not so -- it's now easy to find the effect of the synergies that we captured in 2017 and what we expect to capture in 2018.

Q - Franco T Abelardo {BIO 17416219 <GO>}

If you could quickly follow up, your guidance of same-store sales for Multivarejo, it is in line with food inflation. And if I properly understood. So you expect deflation in the beginning of the year, 3%, 4%. What is the expectation of inflation, it's 1%, it's positive or will be zero-point something? What is the expectation for the year? And when I see Multivarejo, why the guidance is aligned with Multi have a nonfood share. And I believe that this could help same-store sales and the results should be above inflation because of this.

A - Unidentified Speaker

The behavior of inflation is difficult to predict, especially this year. Now our perspectives, we expect inflation during the year will be 3%, 3.5%. And this inflation is made up the following way. The deflation during the first semester, a year similar to the month of December. And we gradually recover May, June and I believe that deflation will have already gone to 0. And as of June, we will have a recovery with the base effect or with new economic activity. We believe that inflation will have -- will reach a higher level during the second semester, 4% or 5%. Now this is really difficult to predict because we have to see also the crops, the harvest of agricultural products, basic products and we have to see how they behave on shelves. We believe that we will have a good harvest. So this will have an effect on the exchange rate. It's difficult to project what we believe is the deflation during the first semester lower than what we saw on the Fourth Quarter. We will recover inflation during the second period of the year, going up to 3%, 3.5%, maybe lower. It will all depend on the contribution of harvest and raw materials. So the average of the year will be lower than 3.5%, 4% because of deflation. Yes, 3.5%, potentially, it could be lower. Nevertheless, the recovery of the economy throughout the year 2018 may be a factor that can affect prices. So this is what we expect during the second half of the year.

Q - Franco T Abelardo {BIO 17416219 <GO>}

Okay. And in Multivarejo, you continue aligned with -- even in the nonfood part?

A - Unidentified Speaker

Multivarejo, I didn't understand the question.

Q - Franco T Abelardo {BIO 17416219 <GO>}

Well the question is, the guidance is to grow aligned with the food inflation. But you have a strong part, that is nonfood. And I would like to understand why wouldn't you grow above inflation when you see this great share of nonfood?

A - Unidentified Speaker

Well the growth of nonfoods is -- has been highly was above 10%. But I believe that the foundation is strong. We saw the nonfood started growing strongly as of the second and Third Quarter of 2017. Therefore, during the second semester of 2018, we have a strong foundation. And this is why we did not project this double digit and stable throughout the entire year. This could happen. But this is not something that we project for this year.

Operator

The next question, Robert Ford, Merrill Lynch.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

I have 2 questions. Christophe, what is the total expenses? Not recurring expenses for the quarter associated with the conversions of the stores, please? Was it all turned into capital or did you have any profit? And what is your estimate to recover that from fiscal -- in terms of fiscal credits from the operations, please?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

The rules of -- preoperational accountability rules are within a very strict framework, whatever can be activated, we just go and do it. The others that we cannot account for, we don't. There is a very strict rule. The volume, the amount of these expenses that we activated or not. And I have to be honest with you. But I do not know. What I know is, the effect of the continuity of operations of AssaÃ once we have a conversion of the stores or when we have a retrofit of PÃ£o de AÃ§Ã°car, the effect as on recurring EBITDA margin this year, it had a 15 bps or 20 bps. But what is the percentage that we have or have not activated? Well we don't have room for any flexibility. So this is why I cannot tell you about it in detail. We just abide by the rule as is. I agree that we accounted for in 2017 comprises in the states of SÃ£o Paulo. There are still additional calculations and reimbursement in all the different states that we operate. This is all part of what we consider to be expected to be accounted for in 2018. We still cannot size that precisely right now. But we have accounted in 2017, we accounted for BRL 700 million concerned ICMS (CG) and mainly SÃ£o Paulo, where we have 60% of our activity concentrated in the state. I don't want you to jump into conclusions and believe that the calculation is proportional. But it is almost there. 60% of our activities generated BRL 700 million. Have I made myself clear?

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

Yes.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

And it all depends on our capacity to monetize and to confirm because tax credits are related sometimes with documentation. So we really have to be able to present the evidence.

Operator

The next question comes from Richard Cathcart, Bradesco BBI.

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

I would like to go back to the topic of cost of Multivarejo. Looking at the selling cost year-against-year, they were kind of stable for Multivarejo. But there was a decrease of 4%, 5% in the Third Quarter and the Second Quarter. In addition, you were closing hypermarket stores. So I would like to understand why the selling cost in the Fourth Quarter did not drop similarly to what we had observed in the second and Third Quarter? That's my question.

A - Unidentified Speaker

In the last quarter, we had the transfer of stores to AssaÃ. And where we had the 50 retrofit of PÃ£o de AÃ§Ã°car superstores. All of them required additional expenses with additional working hours of our employees, costs of security were additional and a number of expenses that inevitably result from a retrofit process. Most of them were recurrent expenses in P&L and the Fourth Quarter had a number of these additional expenses differently from the Third Quarter because all the retrofit of PÃ£o de AÃ§Ã°car stores were conducted during the Fourth Quarter.

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

Fine. In 2018, thinking about the Multivarejo guidance and an expansion, can I expect a negative impact of the renovation and refurbishment of your PÃ£o de AÃ§Ã°car stores.

A - Unidentified Speaker

Yes. You are right. All the retrofit of stores, this year, will also require additional work, additional expenses. And it has already been included in our guidance of 50, 60 bps of improvement.

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

And my last question about that, Moreno, some of the cost were recurring, others were nonrecurring. Can you please let me know what is the percentage of recurring and nonrecurring expenses?

A - Luis Emilio Moreno Sanchez {BIO 1902996 <GO>}

So labor, security, margin, most of them are recurrent expenses. Those that impact on the month that they actually occur.

Operator

The next question, Luiz Felipe Guanais, BTG Pactual.

Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

I have one question concerning the potential of conversion beyond 2018. Considering the number of stores you currently have, what will be the potential of conversions for PÃ£o de AÃ§Ã°car and above all to AssaÃ?

A - Unidentified Speaker

Well we do have this analysis and that has been done by 2020. But this is something not for public sharing, not to be disclosed here. We have a very clear understanding of what is going to happen within the next 8, 10, 12 years -- months, I mean. But we don't know what's going to happen within 24 months. We have a clear understanding that there is a trend towards having more premium format and cash-and-carry, hard discount formats and have fewer stores in between those 2 extremes. But we are not ready to disclose these numbers because we also believe that things change as we go by.

Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

Fine. And one last question. Belmiro talked about the growth of the regional distribution and their competitiveness on the industry. Do you think the growth results from new stores? Or do you think the players are getting more effective? So please let us know where -- what is the source of competitiveness, what is the main reason to explain competitiveness?

A - Unidentified Speaker

Well first of all, because of new openings. There are new networks of stores, new chains of stores growing because of cash-and-carry, the level of penetration is increasing and also conversions at lower and higher scale competitors. There are some operations, which are improving also from an operational perspective. But regardless, both reasons result to greater competitiveness. So new store, well-organized store also have an impact on competitiveness. But some local regional players are also performing quite interestingly.

Operator

Next question, Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Two brief questions. If you could update the situation of the management minds regarding acquisition. Could this be part of their growth plan? I know that you will focus on organic openings in AssaÃ. Nevertheless, perhaps, a number of these opening of new stores could be replaced through a merger and acquisition in other segments, in other formats. And my other question is, if the guidance includes benefits regarding the labor reform.

A - Unidentified Speaker

I'm going to give you the classical answer of M&A questions. Here, we have an area that constantly analyzes opportunity and constantly there are -- there are things that emerge. What we have in our plan is to do what we have anticipated organically. Of course, we can never discard if there is an opportunity that makes sense from the strategic point of view, from the price point of view or something that complements something to our company's synergy. But we have nothing in sight right now. Now the labor reform, either Moreno could answer this question. But actually, what we're doing was something that we expected to do before this reform. We are working, we're experimenting very cautiously because this is the way you have to do it. And we are working in the 12x36 regime. This is a regime that provides very important benefits to our employees. I believe that there are people that live 2 hours from our store and come here 21 days a month and then we use this 12x36, it means that they come 16x. This is good for them, good for the team. Moreno is carrying out this experience with the support of Miguel from Multivarejo. Nevertheless, we have not included this in all our calculation. I believe that we will have gains. But this hasn't been measured yet.

And the thing regarding provision reductions, now that there is potential downside to go in justice or to file a lawsuit. Now until the 11th, until November 11, the amount of lawsuits increased significantly when you compare December to the average -- I'm talking about Brazil, I'm not talking about GPA. When you compare it to the past months, dropped half. But we believe that it's really too early to change in the company's conversions. We want to be conservative in this matter and to follow this process for some time before we make any decisions. But to be -- but to go straight to the point, we have not reflected about this matter, that is the labor reform.

Operator

Next question, Maria Paula Cantusio, BB Investments.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

I would like to know if you could tell us what you have done differently in your Proximity format, what you're pursuing? And when we will see an acceleration of your formats? According to your guidance of 2018, well this year, we will not have an acceleration of new Minuto PÃ£o de AÃ§Ã°car or we will have no other Proximity format? If you could also comment a little bit about what you expect, specifically regarding working capital optimization you established in your guidance? What are the initiatives? Then what lines you see room for improvement in working capital?

A - Unidentified Speaker

Now in a Proximity format, we still have 2 different realities. Minuto PÃ£o de AÃ§Ã°car is a successful format. But for the time being, we are not accelerating this expansion because we are prioritizing the retrofits in PÃ£o de AÃ§Ã°car. So this was the right timing to remodel or to retrofit PÃ£o de AÃ§Ã°car. Now regarding the Mini Extra, what we have done this year is a redefinition of this model, a simplification of the model that is already -- we've seen results in the reduction of operation costs and logistic expenses. And we expect to improve this level in terms of profitability. So we do have Minuto that is ready for expansion. And depending on the right moment and CapEx, we can increase according to the market condition and another model that is being redefined. And it should be ready for future expansion.

Concerning the working capital, the expectations of optimization encompass Multivarejo, where we have a debt with supplier over inventory, which is payable in the year, optimization of Multivarejo is related with the need reduction of food inventory levels. It is a circumstantial need considering the deflation rates we have to increase the turnover rates of our inventories, especially because we are considering that deflation will be maintained within the first half of the year.

To improve the working capital, we would have to consider reductions in inventory levels in the stores that we have closed down because it was converted into AssaÃ or because it was simply closed down. So these are the 2 main reasons, results from closing down of stores and actions to impact the effects of deflation. That is fewer days on stock than what we used to have based on inventory than what we used to have.

Operator

The Q&A session is now closed. We would like to give the floor for the final remarks on behalf of the company.

A - Unidentified Speaker

Once again, I would like to thank you all for your questions and for attending this call. I would like to thank my team who has worked to prepare this conference call. And let me -- we assure you that we are confident. And I should say, optimistic, for the year 2018. We know that we are going to have a year full of volatilities. But we have worked very strongly, we have focused on each of the business units of our company very significantly. The guidance that you have received have been discussed and fully and deeply debated with the team that we have here today. And this is why we are confident that we can deliver them.

Our leadership team is fully committed. And we think is moving towards what we have already started doing. If I may add something based on what we said yesterday to a number of people, as we have very robust, solid bases, we are going to carry on working and even faster than what we used to do. And this is what we expect for upcoming months. This is what we would like to share with you in the future.

Thank you, all very much. And have you all a nice day.

Operator

Thank you. Our conference call, GPA, is now closed. The Investor Relations of the group is ready to interchange any further questions. Thank you, all very much for participating. Have a nice day.