Q1 2022 Earnings Call

Company Participants

- Belmiro Gomes, CEO
- Daniela Sabbag, Chief Administrative and Financial Officer
- Gabrielle Helu, Head of IR
- Unidentified Speaker
- Wlamir dos Anjos, Commercial VP

Other Participants

- Danniela Eiger, Analyst
- Felipe Cassimiro, Analyst
- Joseph Giordano, Analyst
- Unidentified Participant

Presentation

Operator

Morning, everyone, and thank you for waiting. Welcome to the earnings call for the first quarter of 2022 for Assai Atacadista. I would like to highlight that if you do need simultaneous translation, we'll have this resource available on the platform. If you need, you can select interpretation button on the globe icon at the bottom part of your screen and choose your language of preference, Portuguese or English.

We'd like to let you know that this earnings call is being recorded and will be provided on the Company's IR website at the ir.assai website where you can read the release. The presentation will be available on our website.

During the presentation, all participants will have their microphones off. Soon after we'll begin our Q&A session. If you'd like to submit a question, please select the Q&A icon at the bottom part of your screen. Write your name, company, and language, and you'll enter the queue. As you are now [ph], the request to activate your microphone will appear on the screen. When you must activate your microphone to submit a question.

We'd like to let you know that all of your questions should be submitted at once, and all of the information in the presentation and any future statements that could be made during the earnings call related to business perspectives forecast and operational targets are just beliefs and assumptions from the Company's management.

And any future statements are not a guarantee of performance. They involve risks, uncertainties, and assumptions because they refer to future events and circumstances that could or not occur. Investors should understand that the overall economic conditions, market conditions, and other operational factors can lead to results that materially defer from those future statements.

Now I'll pass on the word to Gabrielle Helu. She's the Investor Relations Director.

Gabrielle Helu {BIO 22222055 <GO>}

(interpreted) Well good morning, ladies and gentlemen. Thank you so much for your participation in the earnings call for the first quarter 2022 Assai. The speakers present today are Belmiro Gomes, who's our CEO; Daniela Sabbag; and our VP, Wlamir dos Anjos, our Commercial and Logistics VP; and Anderson Castilho, our Operations VP.

Before we begin the presentation I'll pass on the word to Belmiro for his initial considerations.

Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) Thank you, Gabi. Thank you, everyone, for participating in the Assai Atacadista here. We're going to be a little quicker here with our presentation as we present the numbers in the first quarter because we've already disclosed them previously, and I will just show you the final results.

And we want to really value a little more of the Q&A moment so you can have time to take advantage of the executives present here, the leaders of the business with the presence of our commercial and operational VP and our Financial Director and also talk about some of the market trends.

Before we begin, I would like to actually thank the entire Assai team in every different area and department and different projects that are ongoing. The Company (inaudible) has over 45 construction projects simultaneously going on. It's a very important year for our growth pack, and they have been recognized for the strong pay for the (inaudible) unit, but 2022 has a perfect touch because [ph] it's going to be a record year in our opening, especially with the store conversions coming from the acquisition project of the extra hybrid market stores.

So just quickly about sales as you had noticed, we had an increase of 21% in our total pay [ph]. Most of this comes due to the contribution of our expansion stores. In 2021 we had 28 new stores that opened and 19 opened throughout 2020 were really to reimburse our presence in the markets where Assai was already present from 2013, 2014 onwards.

When we started entering different states we were into the cities where we placed our first store and then last year we had the reinforcement [ph] stores such as Comopoloy [ph], Portiveli [ph], Portovelio [ph], expanding our presence in (inaudible) as well as other key [ph] markets.

The performance of the expansion stores compared to the previous years has been very positive and it's really caused a tiny bit of cannibalization in our network of stores, but in our vision, this strategy is correct because sometimes we have one store in the region that has very sharp performance in sales per square meters or they're actually even a bit more difficult for the service of the customers, but the expansion that we're gone through ten [ph] to consolidate our presence where we have exceptional performance already, we need to expand the market availability.

So the sort of sale base has about 7% growth compared to last year in the same period, but this quarter we had maybe one of the most unique quarters, so the difference in progression, like I said, February was a lot better than January. March was substantially better than February, and April now is a lot strong than March.

So we had some shifts in our behaviors and our strategies that we noticed as well from our customers but also from food service players and businesses who get [ph] back to a level of activity with a little more regular (inaudible) with a reduction of the impurity [ph]. In the pandemic, our margins were really stable, though the numbers and the stability are reputably [ph] a mix of different efforts made by our commercial and operational areas and many different projects and the negotiations with supplies.

And as we invest in competitive advantages, especially in some markets where we are the entrance of new players [ph] but also with all of the positive and negative points, we've still been able to end with a good level of margins in our opinion considering the overall economic scenario balancing out margins and our competitive advantages.

We also had strong earnings [ph] first quarter with the inflation coming in with a lot more strength as everyone else in the overall market expected, which also reached the expense line [ph], so there was a huge effort from our team, especially in the logistics and operations area, to be able to optimize some projects, work on cost reduction, which allowed us to although we do have the original costs coming from these expansions it's really an all time high.

We have people hired with training as well, trips and different projects and initiatives to really handle our managed [ph] expansion that generates overall expense pressure. We should have a little bit more of this in the second quarter, but even so expenses have a variation that were 0.2%, which make the EBITDA have strong performance of 6.6%.

The expansion and we'll talk about this maybe as specific in the chapter [ph], but it has expanded us foreseen [ph]. We increased our level and our objectives for organic stores and turned the (inaudible) and we had two other projects that accelerated the timing for the approvals.

And at this moment we are kind of balancing out the expectations of 12 organic stores venturing two [ph] and another 40 new stores from extras, so this is the minimum level. But as we progress throughout the year, the construction project and approval, it could be that this is going to be going a bit more upwards, but we'll have a lot more visibility about this in the end of the same quarter.

Then we also had strong initiatives in the digital front [ph] with the structural change. I'm going to highlight it up ahead if you want to move onto the next page.

When it comes to sales, and (inaudible) mentioned that the Company had significant growth the past few years. 81% increase in revenue. Of course, you do have an impulse [ph] of inflation given the increase in the price of food, but this strong increase in sales comes from the store openings and achievements of better performance, except in our sales network [ph], and coming from the expansion in the previous years as well.

To not make this repetitive here we can advance onto the next page. The gross profit and budget [ph] seem to be stable, R$ 920.22 [ph] at a level that's way above what we operated [ph] in 2019 or even in 2018 and 2017. When it comes to the level of competitive advantages the Company has been working on, especially when you look at the main performance indicators.

As I understand [ph], our food second operation was up as a volume of sales [ph] per square meter. You can see the outsized performance demonstrates that we're really being competitive. Concrete customers [ph] (inaudible) profiles of stores and especially balancing out having a healthy balance between the main instances of the margins [ph] that the Company needs at the level of competitive advantages that we need as well. We can move onto the next slide now.

And with this, on the next on the last three years, although sales have been growing 81%, the EBITDA doubles. And Daniela will verify this to see that he strong cash generator, and this is even with the growth of same store sales opened in this period, 47 stores in the period of two years.

The Company has been really been able to make the growth, have the significance with the margin of growth in the EBITDA since the index of the cash conversion's really high, which allows the Company to support the projects we have and investments in growth.

And while passing the word to Daniela Sabbag, our Financial Director.

Daniela Sabbag {BIO 22210225 <GO>}

(interpreted) Thank you, Belmiro. Moving onto the slide 6, we ended the quarter with R$ 302 million, representing 2.6% of the sales. And the financial results were impacted by the strong increase in the interest rate, and the CDI increased five times, so it went from 0.49% to 2.43%. It's very relevant, and I want to remind you that throughout 2021 we refinanced all of our debt. We reduced our debt by about 1%, and we were able to extend maturity of these debts.

So our average CDI was CDI +148. So this trend was fundamental to help us reduce the increase of interest in the beginning of the year, and in the results of the quarter, we had important positive effects as well. CRI financials of R$ 1.5 billion, which impacts our earnings by about R$ 58 million in positive it's a noncash effect in line with what the accounting standards require, and we expect that the results will not be relevant from here onwards.

So in the quarter, we also completed three different funding initiatives that we're expected to be able to handle all of the levels of investments in 2022. This led to a total of R$ 3 billion, which is a debenture that we completed in January of R$ 2 billion plays a commercial note.

And finally in April, these out of the quarter but also read in result, we had a fundraising of R$ 250 million as well. So the total cost of the debt continues to be CDI + 1.5%, and I want to highlight that on the right side of this slide you can see the variation of the net debt, and this is where you have a strong cash generation that's very robust as Belmiro mentioned. It's growing and also very much levered by our efficiencies in working capital.

So as you all know, we have a very strong cash generating model. And this was R$ 3.2 billion in this quarter, and just to remind you we had a cash generation of R$ 2.9 billion, so we continue to have a growth that was very significant, and in this slide we also bring in that investments were higher than the EBITDA over the last 12 months.

So when we add up this payment of the extra stores of R$ 1.9 billion plus investments, this generation becomes very important looking at the entire investments we have up ahead, and, of course, we have the financial expenses as well moving this debt in a way where we ended the quarter by R$ 6.3 billion and 2.2 in the leverage ratio.

So I think we can now move onto the next slide, please. And finally the operational performance is very robust in the quarter. We were able to capture results very well with the commercial dynamics and accelerated maturity of the stores. We had 32 in the last 12 months. And an important highlight also is the efficiency and expense control. We were able to control these expenses very well amidst such a context that was pressured by inflation.

So, of course, the financial results with the increase of the interest rate brings in a very relevant impact of 120 bps, and the financial results worsened, and that's how we can register a profit of R$ 214 million and a margin of 1.9%, which confirms the resilience of our business model.

Now, I'll pass the word back onto Belmiro for his comments on the digital initiatives.

Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) Thank you, Dani. When it comes to digital, as we mentioned previously, as I started off a series of initiatives and projects after the split with GPA. We're waiting for we have a new business development position that's going to be led by Sazu Repi [ph], and he worked on our operation in the past with Compu Bank [ph], so he understands a lot about the Company, and he has experience in different areas.

And now we have a new project we started off with the last mile partnership with Cornershop but also Rappi as well, so customers have the option in 17 states, over 55 cities to use the app, and we have some other new features we should be launching soon even before we enter with the new hypermarket stores that are converted and because the public in these stores have a bigger demand for digital services, considering the level of needs which are different than the standards of the stores, so we have some news on this topic up ahead.

You can advance onto the next slide. And the main focus in the company in all the different areas is expansion, expansion, expansion, especially with the readjustment of the conversions of the stores coming from Assai.

So we had a big effort to launch in this quarter many of these stores and most of these in Porto Velho, Belem, Petrolina, Nossa Senhora do Socorro, (inaudible) and now a unit in close to the historical center of Salvador [ph]. It's a super-strong density region. It's a unit that was build where there's no other cash and carry operation. Now we made this very concentrated within the first and second quarter of this year.

So the company's going to have a very strong focus now with the reopenings of the extra stores in the third and fourth quarter this year. So, as I mentioned previously, we're increasing our objective when it comes to organic stores and probably by the end of the second and third quarter we should be advancing as well, maybe not so significantly the number of stores, but in the amount of extra stores and also in the organic stores.

So, projects are up-to-date and within the schedule expected extra closed these operations in December last year where we had negotiation process with the owners and working on the construction site preparation. But, from the 60 constructions we were already working on, 40 are already under progress, under construction. And so, there's an impact on the costs of the conversions, because as we've seen, the inflation has been persistent, not only for food items but also in the cost of construction materials.

So, this project is within the expected level for the construction projects when it regarding what we expected to fulfill of necessary construction projects to transform the hypermarket in a cash and carry store. But, we should have more of a clear vision in the third or fourth quarter to be able to reflect the variation that we're seeing at this moment with the prices of the construction material, especially steel and concrete where we had some non-expected impacts, especially now in the first quarter with the war in Ukraine.

But, the project continues to progress excellent [ph] after Extra. They closed these hypermarkets and we noticed that most of these sales do not migrate into other hypermarket. So, we've seen that these sales normally migrated to supermarkets and especially to other cash and carries.

Unfortunately, or fortunately, we didn't have that many stores close to Extra, which kind of helped that they incorporate this network of stores. So at this moment, with the closing of these stores, we noticed that we should have a temporary situation.

And when this opens and (inaudible) with the value proposition is had and new store that's completely modern with a new offer of services we have a very positive expectation, because the network we have converted stores now already has besides a better performance when it comes to the EBITDA, there's also a better performance when it comes to sales per square meter, especially because they're stores in regions with greater density, they're in capital cities with the same kind of profiles of the stores that are coming around now.

Besides the fact that it has more of a positive working capital effect, because when you look at outside working capital we have a mix of stores that are in the northern region and regions where it's very difficult to consider the dock timing and which is different than a store that's inside the capital city.

So, this will allow the company, really, to we've talked about this a few times, we don't want to be too repetitive, but we can really enter the wholesale form in regions where you don't always have that much availability, so a major population on density in any of the cash and carry stores. So, the current store models are prepared to work with suppliers regardless their social level.

So, besides the traditional public, we're also including new social levels that have been searching for the option of buying from a wholesale or cash and carry operation. So, we are opening up these stores in a very, very positive moment, where the pressure for pricing has really made the population search for opportunities to save money.

When you look at the numbers in the first quarter, obviously this is not open, we have an unfortunate trade-down made by the population even with the higher income population, they've been searching for a better price. And so, there is a strip [ph] action of an increase overall. And we believe it's going to be a very precise moment where we can re-inaugurate the units coming from these projects with Extra.

We can move on.

When it comes to advances, we are bringing in a few other advances, the company as a reference with some topics, especially when it comes to the number of people that have disabilities and also when it comes to diversity and more women in positions of leadership in the company.

We know that we still have a long path ahead, but we have been improving this more and more, adding more focus and efforts, more trading, especially in the issues related to diversity and others just related to social liability of the company, because of the sector we operate in with food.

So, many of our initiatives and projects that we've already incorporated in our network of store with a store expansion this first quarter, the operations area also made an effort to connect even more stores to the premarket and energy supply, which avoids needing to turn on the diesel generators in peak operating hours.

So, we are continuing to advance with new projects to be able to provide some incentives for when power generation and also affordable (inaudible) or solar panel generation. So, Assai is also working with micro and small entrepreneurs as well as entering, in the first quarter, in this 360-degree movement for women. So, I'll let Dani [ph] and Gabi [ph] discuss this a bit more up ahead.

And moving onto the last section, we talk about trends in the second quarter. We've seen an acceleration in the inflation now within the first quarter after the impacts coming Europe. Some of the commodities that were reaching some stability gained a different strength in regards to price increases. Some supply chains are still not stabilized.

The recent impacts in China have also affected Brazil and the variations in the currency rate have also led to some kind of disruption scenario where we still don't have a normality. And the assessment is that the company will see maybe not a peak in prices, but a high level of prices, as we've seen now in the last month of April when it comes to the inflation.

So, inflation has been a lot more long-lasting and persistent and strong than everyone expected. In the food sector, this really generates a bigger challenge for the population when you look at all of the price increases in the past three years. But on the other hand, that also generates a positive movement for our business.

We've noticed, as I mentioned, that we had an important ramp-up that was very unique within the actual quarter. And this moved onto April. In April, it's also a very atypical month because Easter fell on April. We also had another second and Carnival in April this year.

But even with the trade-down what we noticed is that with the special holidays is a bigger [ph] movement for end-users buying their homes with like monthly shoppings and a bigger presence from customers in the food-service sector in our stores. Ever since the pandemic, the food-service sector with bars, restaurants and snack stands and other activities related to tourism or even utilizers like schools and churches have really impacted our results.

April was a month that was a lot more positive for this group with this. In April we grew about 40% in our total bank. And, of course, April is a very unique month, but the performance in April and the movement in May make us consider a second quarter with growth about 30%. Once again, this movement really makes us have an extremely relevant period as we re-inaugurate the extra hyperstores.

So, we have a very big expectation with the reopening of these stores among the surrounding population where it really was their best option before when it comes to shopping for items. And there's also a lot of big expectation from the small business, bars, restaurants and snack stands and many grocery stores it's a big expectation also on behalf of the suppliers.

So, some of the product lines that we would sell, specifically in cash and carry, will also have options to be sold in a region with more density and central region, which also contributes to our suppliers as they see major advantages in this movement.

So, this is a very favorable scenario. And the plans continue. The company is strong and focused in its growth path.

On my behalf, that's pretty much it. And we'd like to pass on the word, once again, to Gabi, so we can begin our Q&A session.

Gabrielle Helu {BIO 22222055 <GO>}

(interpreted) Thank you, Belmiro. We can now continue with our Q&A session.

Questions And Answers

Operator

(interpreted) Now, we'll begin our Q&A session. (Operator Instructions).

We'll move on to our first question coming from Danniela Eiger the Sales Side Analyst at XP. Danniela, we'll open up your mike so that you may precede.

Q - Danniela Eiger {BIO 20250080 <GO>}

(interpreted) Good morning, Belmiro, Dani and Gabi. Thank you for answering my questions. I have two questions. The first one is just to confirm and discuss a bit more of the sales dynamic in the beginning of the second quarter. And also, how, although there's a lot of uncertainty in the year, is would like to also know about profitability.

So, Belmiro, you mentioned that we should wait on expect a bit more expense pressure in second quarter. So, we should probably see a reversal as the extra stores are open. So, we if you could maybe talk about these two points, that would be great.

And another question to Dani. The use of those 1 billion that you should be receiving as a repayment in the second quarter, would this be for prepayment of debt? These are the two points.

A - Daniela Sabbag {BIO 22210225 <GO>}

(interpreted) All right, thank you, Danniela. The dynamic for the second quarter are expected, of course. Our operational expenses and the store expenses continue to be under control We actually had some productivity gains and optimizations, but maybe this won't be that impacting in the second quarter. But, as there was an acceleration in our sales at this moment, this also generates a dilution that's (inaudible) that's super positive.

So, since these are stores that are open in regions and capital cities that are already present there's a bigger level of access [ph] in the second quarter, where our dynamics will be to invest more in competitive advantages, create a bigger movement and greater volumes in sales. But, maybe just after that a difference of about 40 bps [ph] in our expansions, because they're rebalancing how our sales expectations, which also generates an important dilution.

Belmiro?

A - Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) I would like to contribute here to give you an answer about expenses. And I think expenses in our we have very low expenses in our operations, it's part of our DNA, but our operational teams and store teams really have strong work.

When we look at the first quarter compared to last year, the difference is very small, maybe mostly impacted by the preoperational expenses with Extra. Now, in the second quarter maybe they have a little more importance, as you've mentioned yourself. We'll already start opening up these stores and this ends up being a little more diluted.

And we also can't forget that last year we were record of 28 stores open and 21 stores open in the last quarter. So, when we see there's a bit of significance. But, I think there are many different initiatives (inaudible) expenses within Assai since it's a low-cost business, there's not that much to discuss. Of course, we carefully look at each line with operations, stores' teams and support teams and other areas so we don't get off track.

We're a low-cost, low-price business and sales volumes also help dilute our costs, so we have very positive expectations. But, this is really daily effort and initiative from the team looking at all these lines so that we can have very positive returns.

So, to add on, as we mentioned, there's a lot more in the second quarter considering the preoperational aspect with our teams already working on training their professionals and employees so we can really make sure that the store launches are very successful. We're very careful with this point, really in line with the work being done in all the other teams and other stores.

I hope that was clear.

And about the 1 billion and the reimbursement that we'll receive from the real estate fund, at this moment we will not prepay debts, but obviously, it will strengthen our cash flow to be able to work on all of the investments with the Extra project, especially, that we have up ahead. So, at this moment we won't be prepaying debt. Possibly a little more up ahead. But at this moment the priority is really guaranteeing the investments in the Extra store launches.

Q - Danniela Eiger {BIO 20250080 <GO>}

(interpreted) All right. Thank you very much.

Operator

Great. So continuing, our next question is from Felipe Cassimiro, he's a sales side analyst at from HSBC. Felipe [ph], we'll open up your mike so you can proceed.

Q - Felipe Cassimiro {BIO 20321618 <GO>}

(interpreted) Thank you very much. Good morning everyone, good morning, Dani and Belmiro. Belmiro, thank you so much for this.

You give us some really interesting information on the behavior of the consumer and what really called my attention in this process was the migration of Extra and where the consumer pass this onto supermarkets and cash and carry. But, you mentioned that you're very confident about recovering this consumer. But, it called my attention, because part of these consumers are moving more towards supermarkets, maybe they're searching for more convenience within certain perishable goods.

Well, I don't want to take too much time here, but I want to understand what your mindset is in regards to this confidence of recovering 100% of the Extra consumers, because you still need a gain share, since these sales need to go up 2 or 3 times more.

So I think this question was a little bit long but I wanted to understand a bit of your mindset in regards to this recovery.

A - Unidentified Speaker

(interpreted) Thank you, Felipe [ph] for that question. These stores ended there was a restrained demand for the Cash & Carry. So the multiplication of sales was reached in all of the network. And so, this has been a bit more clear.

So the level of risk between opening up an organic store, conversion stores, or even smaller. You can see the amount of the population that's surrounding and the level of competition and activities. But of course, with the stores closed, we'd have to move on to other places and a lot of them migrate into their closest stores.

And considering the quality of these stores, there's no doubt that the numbers that were estimated we have a (inaudible) that's even more positive than when we said this initially in the past and pressures and costs in the neighbor savings as well as the need for consumers and even small businesses that want to have low prices and although it's too much time discontinued then it's also expanded to a bigger search for savings.

So in our vision this really reinforces the positioning for the stores we opened last year. For example, the best performance at this moment was really coming from a store that was in a region that was really this extra profile, which was a conversion with our concept store.

So in our vision, we don't want to celebrate the increase of the inflation but these price increase movement for the consumption in these regions so in most of the region our teams have been reporting that there's a big expectation with the reopening of the Assai brand.

Q - Felipe Cassimiro {BIO 20321618 <GO>}

(interpreted) And just one more follow-up point here, with the acquisition of (inaudible) by Jigga [ph] was at change a bit in the competitive advantage. I know you have unlimited space for discussing this but I wanted to understand your vision on this consolidation.

A - Unidentified Speaker

(interpreted) No, we don't see any relevant impact because just Cash & Carry to Cash & Carry it was just now going to be managed jointly with the (inaudible) team, which maybe will bring a little more difficulties for management.

Now, these stores are going to be impacted with the re-openings of the extra stores. At least four or five that are going to open about some Assai brands that are very strong. But there won't be much of a change when you look at this overall scenario in the market.

Q - Felipe Cassimiro {BIO 20321618 <GO>}

(interpreted) Okay, thank you very much.

Operator

Well, continuing our next question comes from John Swarey [ph] with Outside Analysts [ph] from Citi [ph]. John [ph], we'll open up your mic so that you may proceed.

Q - Unidentified Participant

(interpreted) Thank you, good morning, everyone. I would like to explore a bit more on this. I thought your discourse was a little more optimistic. So some points called my attention. First a revision of the organic opening this years.

And I also noticed that there's this possibility to review the store conversions. And so, depending on how things evolve, is there an opportunity to review these store conversions this year? So how could we start looking at those 100 billion in billing or sales that you expect?

Do you think that they're more conservative at this moment? That's the first question. And the second question is about this point with the market itself we saw as Felipe mentioned with the acquisition of (inaudible) that (inaudible) that overall it's a seller's market really.

There's some opportunities with the macro stores. So I understand its elaborate situation is a little more difficult, you're also busy with the extra conversion. But the point is, is there any other opportunity, or maybe should we analyze organic store openings and maybe work on some inorganic store openings?

I want to hear your opinion about the assets available in the market.

A - Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) So of course, what we've noticed is that the positive point is that it gives us a bit more of a correct balancing out of the values for the regional companies. Because normally there is some expectations in regards to price levels that would not be sustained for a possible acquisition at this moment.

This operation places level at a bit more of a realistic position when we look at the ratio of the amount paid versus the sales in this company. So in our case, we're really focused on extra now Assai has 217 units plus the extra units of this geographic footprint in the national territory, especially in the capital cities.

Which make to reduce the volumes of players that are relevant because the level of overlaps are really just going up when it comes to regional players or other areas. So we're always moving back on track. But our focus as a company is really the conversion stores.

Because even for an acquisition, which is different than (inaudible), for example, working on just the POSes but also they want to have understand, know-how. And in our case what's most interesting is the commercial point, right. When it comes to systems, policies, expertise.

So any kind of movement is where you're going to be looking at this and besides the extra stores we also open up another unit that we bought from a construction material company. And another construction project that we also bought for a furniture store. So the disputes in the market will be focused on these areas.

And there's a difficulty and the urban logistics look huge, right. So when it comes to store conversion, our teams have been working with higher volumes in what we disclose. So not all of the authorizations rely just on the company, there are some documents that although they may be store refurbishings with lower levels of complexity.

So if you've ever done some construction projects or refurbishing you know what I'm talking about. But of course, we plan to open up as soon as possible to make these assets start billing and selling as quick as possible.

So we've kept this target, the 100 million. And at this moment we don't necessarily need to review it. But of course, nominally we'd be searching correcting the search of from the customers generating a bit more security. And the company is a lot more confident about this.

And we are even a bit more confident about this than we were in the past. I hope to answer your question.

Q - Unidentified Participant

(interpreted) Thank you very much, Belmiro.

Operator

And of course, the next question is from Eric Wong [ph]. Eric [ph], we'll open up your audio so that you may proceed.

Q - Unidentified Participant

(interpreted) And, good morning, Belmiro. On our side, we would like to understand how you've seen the sensitivity that consumers have towards pricing. So whether we like it or not the inflation topic is super significant. So I want to understand how this could maybe affect the gross margins throughout the year?

And also as we look a bit more towards the trade-down (inaudible). Though historically we see this as coming a lot more from the hyperconsumers. But just to understand this a bit more as the inflation keeps up at a high level for a bit longer. Have you seen a trend to capture this from the supermarket formats?

This would be our main these would be our main questions.

A - Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) So I think Wlamir, our commercial VP could answer this one.

A - Wlamir dos Anjos {BIO 22210227 <GO>}

(interpreted) Yes, of course, thank you for that question. As we initially start talking about the customer migration between channels, I'm not going to call this trade-down but migration. At this inflation movement, this is something that's been going on for a few years.

And whenever the inflation accelerates, customers search for Cash & Carry format. So even as we contribute to (inaudible) in this first quarter we had a closing down of the extra hyperstore. And Assai did not capture sales because we don't have overlaps on these points.

But we did have an important market share gain. We were able to grow in January, February, and March. And that's when we reached the highest levels of market share in the past 12 months. And inflation has significant weight.

So when we talk about the inflation and the price inflation and trade-down we've already been coexisting with this inflations a little longer than what we expected. We had already expected its narrative a little different in 2022.

But considering what's been going on in the market internationally and in the Brazilian market due to currency issues explored logistically, supply chain, et cetera we've continued to have this pressure. Trade-down is we had very strong trade-down, about 5% trade-down.

There are some categories where there is slightly related to the pandemic, especially hygiene and cleaning products that they lost a lot of volume and traction such as bleach or detergent, soap, and general cleaning products, alcohol. The quantities consumed dropped significantly this year.

And so, to be precise, with this more challenging scenario, we've been able to work on the consumer issue with a lot of faith [ph]. So just to give you an idea we have a revision with the introduction of new products to be able to lead this project with these customers as a well as a modification of (inaudible) by 68% depending on the market with the renovation of the mix [ph] monthly.

So that we can have a policy for prices but also what to offer to customers in a very assertive way. And on the other hand, as we look at this impact as a whole, we go back to seeing an increase in the customer flow in stores. So we eliminated part of this for a trade-down and migration of customers.

And this combination has been making us very confident in our operational and commercial policies because with the inclusion of these new services in some specific markets such as the battery [ph] service without losing hand with the cost issue.

And this capacity that we have to really direct our commercial policies and marketing, and a very precise promotional calendar we adjust our policies week after week, and month after month. And so, this combination this is not very positive but we've been able to deliver a great solution to acquiring small businesses.

I hope to have answered your question.

Q - Unidentified Participant

(interpreted) That's great, thank you very much. So maybe just if you could follow-up on the issue related to the sales performance in the month of April and May?

We've noticed some of our competitors talking about numbers but also tiny bit at the beginning of the q and a session. But if you could maybe talk about this a little bit that would be great, thank you very much.

A - Unidentified Speaker

(interpreted) Do you want to answer this one, Belmiro?

A - Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) Yes, I can. Yes, we did speak about this, of course, we had April as a very unique month because we had Easter and also a special (inaudible) of normal dates. And April had a strong sales acceleration, of course, as a calendar effect.

April and the shuttle base [ph] grew about 40%. So we estimate that in the second quarter we're probably a target of about 30%. Of course, when you look at the numbers from May this is allows us to re-estimate this once again.

Q - Unidentified Participant

(interpreted) That's great, thank you very much.

Operator

So moving on our next question is from Gabrielle Prichard [ph], the sales side analyst from Credit Suisse. Gabrielle [ph], we'll open up your microphone so you may proceed.

Q - Unidentified Participant

(interpreted) This is Marcella Heckan [ph], thank you for answering my question. I have this question that most people already submitted. But I just wanted to know about the following, Belmiro.

We've seen some contrasting dynamics in the industry with a profitability and sales effect. So there are some players that are prioritizing more balanced effect in the sales, protecting margins such as you at this moment. And others are accelerating sales and investing their margins giving up a bit of their margins.

So I want to know what you're considering in this dynamic? And if we could consider that you'll continue to grow sales in a more balanced level compared to your peers in order to keep protected margins? Thank you very much.

A - Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) Well, Marcella [ph], thank you so much for this question. Actually, if you look at the first quarter our vision as a total growth is that we've had one of the biggest levels of growth in the market due to the size of stores open.

There because you have more acceleration in sales, and the average ramp-up process that as you mentioned, part of these total sales were influencing same-store sale. And 2 percentage points so in our vision, we've balanced this out very in a very healthy way when it comes to keeping competitive advantages. The total growth base and after the preservation of margins especially for the second quarter we should be working on this in a more aggressive.

When it comes to searching for a volume of sales this does not mean that we're going to work on a very strong investment in margins, we always search for very healthy balance between these two lines. At this moment we're preparing for the reopening of the extra stores so of course it's natural that we should increase our level of promotions and communication initiatives to support not only the stores and their operation at the moment but also the new units that are going to enter operation in our park now.

So we've been reaching a very healthy level. Now we can say look, we're just going to search for sales with no margins or just margins without sales. I think that there's a huge difference as well in each of the regions of Viseli [ph], there's some regions where you have bigger level competiveness. So we have been really searching for this healthy balance.

I hope that's clear.

Q - Unidentified Participant

Yes, super clear, Belmiro. Thank you very much.

Operator

Well as we continue, Filipe [ph] from Sales Side Analyst at Goldman Sachs. Filipe we'll open up your mic so you may proceed.

Q - Unidentified Participant

(interpreted) Hi, good morning everyone. Dani, Belmiro, Gabi, thank you for this opportunity. I just wanted to cover two topics here. The first one is as we think about the extra stores that are going to converted I understand that they will have a product (inaudible) different than the rest of the store network such as battery. So could we expect that maybe this could have a working capital impact looking up ahead? May be the concept (inaudible), how has it behaved in regard to the rest of the store network?

So as we think about the organic expansion especially in the north and northeast regions, the stores in these regions have behaved in a -- when it comes to sales and when it comes to margins as well. So have you felt a bit more of an intense than what was expect originally especially when compared to other markets where you have a stronger presence? Or is everything under expectations?

A - Belmiro Gomes {BIO 18107864 <GO>}

Thank you, Filipe. And I want to start in the opposite direction, the north and northeast markets do have a higher level of pressure from competition but it's within what is expected because we understand and know the players in the region. There are other players that are also advancing in the store progression but the best answer is when you look at the base of total growth and you calculate the average sales per store.

So in the regions in Brazil overall normally have very different behaviors and that's expected. There's a different level of income and competition when you look at the numbers of course. So the Company actually continues to implement some organic projects and some other organic projects (inaudible) prepared in that region. So although each region has their specificity it's kind of within what was expected for each region.

The working capital, yes, the stores follow another level of service and especially the stores in central regions not only extra but even the organic ones where you have a bigger amount SKUs, a bigger amount of services. But for the working capital effects, this is actually marginal. When we consider our working capital we're looking at an average of stores in the north, northeast regions and more distant locations where the time supply or logistical processes are little more long -- a little longer.

Then we have a turnover in the inventories with a smaller term or timing than the more distant regions here. So the impacts you'll see in the working capital with the store conversions from extra stores. In regard to the current network it's a lot more positive than negative.

Even when you add this bigger amount of assortment or a bigger level of services and a more expanded amount of product options or ...

Q - Unidentified Participant

(interpreted) Yes, that makes total sense. Thank you very much, Belmiro.

Operator

Moving on, our next question comes from Joseph Giordano, the Sales Side Analyst from J.P. Morgan. Joseph, we will open up your mic so that you may proceed. You may proceed, Joseph.

Q - Joseph Giordano {BIO 17751061 <GO>}

(interpreted) Hi, good morning, everyone. Good morning, Belmiro, good morning Dani, Gabi. Thank you for that question, I want to explore you digital strategy a bit more. We have seen you growing a lot with Corner Shop and these Last Mile players and Rapi [ph] as well. Would it make sense to maybe think of proprietary Assai platform especially now as we add even more stores from extra and we'll have a consumer component that's maybe a little bigger?

Working on some subscription models within Assai so the Company itself could be following more of a supply approach and working on more recurrent and loyalty as you see -- when compared to other markets? So I don't know if this makes sense within the Company's strategy.

A - Unidentified Speaker

Well, thanks, Joseph. When we talk about digital we have a very well structured project and it's underway and this will bring in a lot of new features. We unfortunately want to -- will have to wait a bit for the launch of the project now. That should take place in the beginning of the third quarter when we reopen the extra stores.

So there is a demand -- well one thing not necessarily does digital mean e-commerce directly as deliveries [ph]. The objective is that the deliveries really are done by a Last Mile operator but we notice that there is a need and a desirability when it comes to digital which is not necessarily commerce in the existing store network. E-commerce appears in the 10 -- in the 14th position actually in the list of points mentioned by customers.

So the customers want to know first if there's the products available in the store, if there's vacancy for them to park, what's the project recommendations or suggestion. Do you have the option of like a pick-up from store.

And e-commerce when you united the digital and physical world with a digital approach is a really interesting opportunity. So we don't plan to have a proprietary e-commerce platform. We want to be more present with digital services and different features so that customer's going to interact with our store using digital ads I mean for this. Whether they're in our store or not, then, yes.

So we need to wait a bit more on some of the projects we have a team developing this and they're very focused on this at the moment.

Q - Joseph Giordano {BIO 17751061 <GO>}

If fact maybe mentioned a follow-up question here about services. We have Feak [ph] which are about four shifts and I want to understand how you're looking at this from now onwards. Because the Assai card has also gained a lot of reference with the machine. So how have you looked at this strategy as well.

A - Unidentified Speaker

Feak [ph] is not a strategic guidance. Of course we take advantage of customer flow which is significant. There should be an important expansion with the new extra stores and we have the opportunity to start off using cards even more, so Feak [ph] is focused on the cards and some financial services that are sold.

But there's no like big shift when it comes to strategic guidance for Feak [ph] at this moment. So there's a big focus in all of the different areas in the Company for the reopening of the extra stores. To give you an idea of those, we reached the end of the first quarter with almost one million square meters of retail there [ph]. So the store is coming around now are about 400,000 square meters in capitals.

So in richer areas about 40% of the store network and the big focus of really getting the store conversion from extra and then after we had some other projects we'll be conducting as well from next year onwards.

Q - Joseph Giordano {BIO 17751061 <GO>}

So thank you.

Operator

As we continue with our next question. We have Melissa from Bank of America from the sales side area. We'll open up your mic, Melissa, so you may proceed with your question.

Q - Unidentified Participant

Hi, thank you so much. I'm going [ph] to do this in English. But most of my questions have been answered but I was hoping that you can give just a little bit more color in terms of regional sales performance and market share. So both the growth of the cash and carry segment as a whole and your performance within the segment?

And then also on the digital strategy, if you can just provide a little bit more detail in terms of the economics of the existing Last Mile partnerships and the incremental sales that you're generating, if you think this is a new consumer that you are bringing in? And sort of the expectations for growth of the channel and more particularly when you open the converted stores?

A - Unidentified Speaker

Thank you, Melissa [ph]. Now for digital, yes there is an expectation for greater penetration of these stores with the extra hypermarket stores where we do plan to add a bit more detail and color when we are able to implement the new project we started working on after this (inaudible).

So far we're going be careful with which numbers we disclose in regards to the operations with the Last Mile partners. They're following a very strong ramp up. In our vision most of these customers are new customers or customers that already used to buy Assai and now they use our app to perform some smaller shoppings throughout the month.

So we have -- we'll have more of a complete vision in digital soon. Since the project still hasn't been launched we'll have to wait until the stores are -- the extra Hyper market stores are converted.

But in practical terms, we can say that the Company is going to always adjust according to the demand and profile of customers in our surrounding regions. So our previous store network was very different. As you have a customer with new needs or demand you can offer new services and needs to be able to meet these requirements.

Then regional performance, while the Company has been present in 24 states in the country, we have regions where believe it or not there's bigger market share which is not San Paulo actually, believe it or not. We have more participation in (inaudible) then what we have here in San Paulo, for example, in our vision [ph].

We have been able to be very competitive and we've been able to grow despite the regions. And in the organic expansion of our stores we have seen this. So we have proved this in our store openings this year where you can see that most of them are open exactly in regions that are out of the San Paulo market as well.

So we understand the region in each area and the expectations and levels of investments in each area and what they're performance is. There's no region at this moment that's under control because all of the regions have projects for growth in new units. All of them were in.

Q - Unidentified Participant

Okay, thank you. And when you look though at the acceleration in terms of same stores or total sales growth in April, that 40%, are there different regions that are contributing more to this growth rate? And I'm thinking also on a like-for-like not just in terms of the expansion.

A - Unidentified Speaker

Well the volumes in April were close to 40% the very different month it's an atypical month that's why we have to be careful to not expand these results into the other months. But this movement gained a little more strength in different regions of Brazil because the stores that are regions that are more touristy or stores that are in more distant regions where there was like an internal tourism, a lot of people traveling inside Brazil at this moment where people -- now in April, for example, we had very strong movement in all of the different regions in Brazil and in the south and coming into the southeast region as well.

Q - Unidentified Participant

Thank you very much.

Operator

The Q&A session is officially ended. Now we would like to pass on the word to Gabrielle Helu for her final remarks from the Company.

A - Gabrielle Helu {BIO 22222055 <GO>}

(interpreted) Well due to timing we ended our Q&A but we will answer to all of the investors that submitted questions that were not answered. And we have already gone over one hour of our call. But I'll pass on the word now to Belmiro for his closing remarks. Thank you.

A - Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) Thank you, Gabi. Unfortunately we really wanted to give you time for questions and let the time as well with the specialists in the Company to be able to answer these questions especially related to the market which is the most important and most interesting especially in this year with very strong historic conversions which is a real needle mover in the history of Assai. And once again I want to thank our team for their work and initiatives in the first quarter and all the efforts necessary in the second and third quarters as well.

There is a big army practically of people working on our projects and the difference construction projects and developments with hiring, training people, communication, building, efforts with procurement, training of our teams as well to be able to really handle the openings of these 50 new units. We forced [ph] deeper this year when it comes to job generation and investments it's going to be very important as well for the regions the stores are in and for the country as a whole as well.

The teams very focused and engaged. The Company has plans and the strategies are in line with what we're expected. There may be some possible route corrections might be necessary but we've been able to do this very quickly. And we hope to deliver another quarter and a whole year of 2022 very strong in results as we reopen these units.

Thank you so much everyone.

Operator

(interpreted) The earnings call for Assai in the first quarter of 2022 is officially ended. The department for investor relations is available to answer any other questions. Thank you so much to all participants and have a wonderful day.