Q4 2016 Earnings Call

Company Participants

- Belmiro Gomes, CEO, Assai
- Christophe Hidalgo, CFO
- Daniela Sabbag, IR Director
- Luis Moreno, VP of Multivarejo Business
- Marcos Samaha, COO of Multivarejo
- Ronaldo Iabrudi, CEO
- Unidentified Speaker, Unknown

Other Participants

- Franco Aberlardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to GPA conference call to discuss the earnings results for the Fourth Quarter of 2016. This event is being broadcasted via webcast, which can be accessed at www.gpari.com.br and engage X platform with the respective presentation. The slide selection will be managed by you. There will be a replay facility for this call on this website. We inform you that the Company's press release is also available at its IR website.

This event is being recorded. And all participants will be in a listen-only mode during the Company's presentation. After GPA's remarks are completed, there will be a Q&A session. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me clarify that forward-looking statements made during this conference call regarding GPA's business perspectives, projections and operating financial goals are based on beliefs and assumptions of GPA's management. And on information currently available to the Company. They involve risk, uncertainties and assumptions, because they refer to the future events and therefore depend on circumstances that may or may not occur.

Investors should bear in mind that general economic conditions, industry conditions. And other operating factors could also affect the future results of GPA and may lead to results that could differ materially from those expressed forward-looking statements.

Now, we would like to give the floor to Ms. Daniela Sabbag, Investor Relations Director of the Company.

Daniela Sabbag {BIO 18861490 <GO>}

Good morning, to everyone. Welcome to our conference call of the earnings result of the Fourth Quarter of 2016 of GPA. Today, we have Ronaldo Iabrudi, CEO; Christophe Hidalgo, CFO; and CEOs of BUs, Luis Moreno, Multivarejo and Belmiro Gomes from Assai, in addition to other executives of the Company.

I will give the floor to Ronaldo for his initial remarks.

Ronaldo Iabrudi {BIO 5151863 <GO>}

Thank you very much, Dany. Good morning. Thank you for participating in our conference call. I am going to briefly talk about the year 2016. Then you will hear from each one of the BUs, in addition to the results 2016, prospects for 2017.

Now 2016, well, without a doubt a complex year, challenging year. But you will verify according to Belmiro's and Moreno's presentation that in Assai, there is no doubt we'll start showing the positive results, that are results of the efforts that were carried out throughout 2016 in a macro fashion. Throughout this year, we worked in three major fronts of work. We've already talked about this. But I believe that it is worthwhile to mention this once again. We are refining our strategy, the implementation of our strategy. And I will briefly talk about basic. We have strongly worked on basic foundations, properly implementing the basic foundations and this has been a constant in our Company and we continue focused on our financial discipline.

Now if we see the first pillar of the three macro points that I mentioned that is the strategy, I believe that there is no doubt that this has already been announced. We carried out a straight analysis when we were carrying out the strategic planning of the Company and very clearly we decided to continue focusing on our core business that would be the food business, what led us to initiate the divestment process of the Via Varejo, which is an undergoing process. We are conducting this process in such a way that it is competitive and we are also doing things calmly and very carefully because this is all the care that you need for an M&A process. This transaction, as I mentioned beforehand, allows us to focus on a very accentuated fashion.

All the resources of the Company, I'm talking about investment, the Company's focus and I'm also talking about our food business, which is a business that we are reviewing and we are reanalyzing the assets in our portfolio. Now within this analysis, when we analyze the assets in the portfolio in the food business, we have also mentioned this, we have strongly focused on what gives us greater return. So when we talk about opening new stores, we are paying attention to new Assais are opening; some, we are opening Minuto and very recently I believe that you have followed up this. Yesterday, we had a meeting about this matter.

We're strongly focused on partners or allies within our portfolio strategy, a very important point that I would like to highlight, with which we have experienced because of the conversions that took place last year. With the analysis of what we can do in terms of conversion in our Company in Pilares and Sao Vicente in Sao Paulo, Belmiro will give you details. But the initial results, both from the sales point of view as well from the margin point of view were very, very positive. They were much better than what we had anticipated and this leads us -- as we had already planned, this leads us and we're already working on this since the month of January we've initiated this conversion process. So now we have strong certainty regarding these minimum 15 conversions that we expect to carry out throughout the year of 2017.

In addition to all of these conversions in Assai, we will also work in order to implement and to have six or eight organic stores. Our market share in cash and carry until the end of 2017, well I believe the market share will be above 40% of the total of our revenue. This is talking about this analysis that we carried out regarding our portfolio, the strategic analysis that we carried out and also we saw the level of each one of the BUs now.

Now, going to the second pillar, that would be our second working front that was focused on what is basic, that is to redo the basic foundation -- doing the basic we've done. So now we are -- we have already deployed, we inaugurated two weeks ago the new structure for Multivarejo. Moreno gathered all his team and according to our assessment, we have the best team that we could ever have in Multivarejo. Today, we have an exceptional team and Moreno is leading them and he leads different areas of Multivarejo. And moreover within Multivarejo and within the commercial scope, as many of you are aware, we have initiated a number of initiatives. We perfected these initiatives throughout the year, because you are aware that you launched certain commercial dynamics and they have to be perfected.

Therefore, we are in a moment during Moreno's presentation of consolidation with automation and with assertiveness regarding our customer's base and our dynamics. And everything with them in a very positive way. What all if we see from the results point of view, which leads to growth in customer flow, in extra, also the recovery volume, also the recovery of market share and also very important recovery during measurement periods throughout the past month.

Now the question always remains -- of course we are evolving in sales and the question people after margin, what about margin. Well we understand that we have reached a breakeven point with very important competitiveness in our margins. And as a result of this, we do not expect additional pressure on our margins and we will continue working. So that the increase in sales that we are observing -- we saw that in the last quarter, because the figures have been announced that the sales volume will dilute the fixed costs of the Company. And this way, we will be able to increase throughout the year of 2017, the profitability and our business in Multivarejo. Now obviously at the end, I will talk a bit about the macro aspect that has hindered a bit. I think that this is why sometimes they don't probably direction that we wish they will follow.

Now, the third pillar that is the pillar that we have been working for some time that is focused discipline on management and very strict in the financial side. We are strongly focused on costs, on working capital and CapEx. And we have strictly analyzed each initiative. It could be at the commercial level, it could also be at the Company's management level. And always carrying out a diagnosis, always creating a pilot project. And see how these pilot project could work, also trying to perfect this pilot project. So that subsequently we can unfold all of these activities in each one of the stores or each one of the businesses or in each one of the activities of the Company. Now, this dynamic of this discipline that follows methods and financial discipline has guarantees that our initiatives be strongly assertive in each one of the businesses of the Company.

Now, another front that is also collected to this management and to the focus on cost and to capture synergies has been the effort that we have carried out together with the Group enterprises. This is what we internally called Maestro project. This week we also held meeting. And as I've mentioned, we have followed this up on a monthly basis. Each one of the fronts, we have 19 fronts, working fronts of the synergy.

And throughout the year of 2016, we were able to capture $25 million in gains that are results of the synergies. And just to give you a number of examples, for instance, we have in the textile area we have included in the concepts of the models that you have in Colombia, we have benefited from the CRM synergies. And on the other side, Colombia has also benefited itself from the model that we have here in Assai. And they have already implemented this model in Colombia.

Last year, we had a challenge. We're talking about $25 million that we were able to capture. And this year, we have even a greater challenge to guarantee that we achieve this target. We even appointed a person that is a person that works with us, that is (inaudible) that is the only executive that has operated in these four countries in Argentina, in Uruguay, in Colombia. And in the past two years has operated with us, which reassures us that these synergies will be captured throughout the year of 2017.

Now to come to an end and then I will give the floor to Christophe. I would like to mention what I have already mentioned to you individually. We still haven't seen a comeback of the economy -- the recovery of the economy or the retail market. As we identify this and everybody is following this, there are some very positive indicators. For instance, the interest rate within our business, specifically in the food business every 1% represents an important gain. We're talking about almost BRL40 million in gains that you have with the drop of 1% of the interest rates. And we expect this momentum continue, as we have observed this since the end of last year.

The drop of inflation also, this also brings greater purchase power to our customers. But on the other side, we are also seeing an evolution and unemployment, there is no drop.

We see that unemployment is growing. So we continue focused on the plans that we defined and you will have the opportunity, we've mentioned a number of them. We're talking about highly detailed plan. Each plan has someone responsible for them and these are plans that weren't -- they are opened, we're just starting right now.

Most of these plans were included in September and October. And now they are in advanced stage in each one of these plans, be it in each one of the BUs. What also leads us, although facing a scenario of complicated environment, a challenging environment during the two to three years, even within the short-term, the results are not exactly what we expected, based on the plans that we have developed and are in the execution capacity of the team that is here at the table.

We believe that throughout 2017, we will have a comeback also due to what is happening in the economy. But basically because of the plans and the specific projects that each one of the BUs has developed and that is under execution.

So now I would like to give the floor to Christophe. And I feel very reassured, although we are not at the result level that we would like, we trust that throughout the year of 2017, we will evolve towards better results. And we will present much better results than what we have presented till now.

So now I would like to give the floor to Christophe. So you can talk about figures.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you very much, Ronaldo. Good morning, everyone. Before we start, I would like to highlight that the result that we presented (inaudible) the application at IFRS 5 that focused on continuous activity. We just want to give you our profit outlook of what our business would be and completely this means that the results that we present consider the food activities of Multivarejo, food activities of Assai, most of the drugstores and participation of 34% of the discount front.

So now, we will talk about the main points of consolidated financial performance. Sales were announced in January. I would like to highlight a growth of 12.5% during the quarter. This acceleration shows the proper dynamic and which proves (technical difficulty) the year. This good performance above the market has two explanations; one will be in Multivarejo, the assertiveness of the new commercial strategies adopted since the beginning of the year. And this was materialized in the Fourth Quarter. And Hiper Extra with the same-store fell [ph] 5% and we have been recovering market share for nine consecutive period and recovering flow customers.

Regarding Pao de Acucar firm, well, I confirmed the solidity and the resilience of the commercial model maintaining a market share (inaudible) for two consecutive years. And the second factor that explains this proper sales performance with the strong growth of 39.2% in Assai that have been participating in 35% of our sales, with sales of BRL15.7 billion [ph]. Assai this year has opened 13 stores, two conversions and you can see consistent growth on same-stores and 3.8% -- Slide 2, 18.6%. Here we have a growth consolidated margin of 23%, due to the following factors: one, the effect of the mix between the business. Assai's largest share has significant weight as its account had 7% of penetration to 35%. The second factor is related to investments in competitiveness in Multivarejo and especially in Extra. Now, when we observe margin per business units, Multivarejo's dropped 90 bps as a result of commercial initiatives, while Assai presented a 30 bps gain reflecting the maturity of store openings.

Now regarding the gross margin behavior, especially the Multivarejo, I would like to emphasize that we have had a very stable margin level since the Second Quarter. This corrected for any tax credit effect. I would strengthen according to what we're now going to mention. We will not make additional efforts in the gross margin. I showed the current trend. Now, when we see the SG&A for the quarter grew 11.4%. Apparently, the value may seem high in a preliminary analysis. But was driven by the strong expansion of Assai that grew 36% in line with the strong organic growth.

Multivarejo has grown in line with inflation. Important to highlight is that in the last two quarters, it has shown a growth of 200 bps below inflation. I would like to highlight that in the coming quarters, we will continue to enjoy the positive results of discipline in cost control. Therefore, this trend of growth of expenditure below inflation will continue throughout 2017.

When we see the adjusted EBITDA of 2016, we totaled BRL2.2 billion, 5.3% of margin. This level in our view is a good level of outcome considering the economic context that is difficult and particularly high unemployment. We consider also because of the positive dynamic and because of the recovery dynamic that we have observed during the past two quarters.

In Multivarejo, where the EBITDA was 5.6%, it is aligned with what we signaled to the market during the year. This operating income shows the Company's ascertained decisions to be more competitive. Since the First Quarter, we understand that it was the right decision because we not only recovered and we gained more market share, even we are channeling revision to cash and carry has been taking place. Well in relation Assai, the result for the year was very consistent with each quarter, closing the year with 54% growth of EBITDA. So a margin gain of 5 bps and finishing with the margin of 4.7% even while opening of 13 stores during the year.

Now, other expenses. This affected the Company's net income of BRL20.6 million [ph]. These expenses are related to three major issues. One, provision for contingencies and I will give you more explanation, BRL140 million a write-off of BRL64 million that corresponds to the impact of the closed stores on one side and the impact or converted stores or to be converted during the first part of the year of Extra to Assai.

Now, the third part of our expenses of non-recurring expenses of the quarter would be BRL30 million. And it is in line with restructuring expenses to adapt our structure. When I was talking about other expenses, I would like to give you details about contingencies, the provision of BRL138 million is regarding the tax -- this is regarding the ancillary obligation to demonstrate the balance of reimbursement of ICMS ST. And we have to deliver the reimbursement tickets. Now based on the analysis of the investigations completed and the legal fate of the assessment, we identified risk of not being able to offer this document.

I would like to highlight that this is regarding the period of 1999 to 2001 and that today our processes, systems and controls are already in compliance to meet the requirements of these topics to justify the reimbursement. In the global, not only in the quarter, it is important to note that the tax contingencies presented a reduction of BRL1.5 billion. These are profitable contingencies. This reduction is aligned with success in the management area and the legal area that allowed us to reduce significantly the volume of contingencies. Now this -- so we have this reduction of BRL1.5 billion growth reduces to BRL200,000.

The remaining balances of the contingencies after the significant drop continues to be monitored on a recurring fashion by both management with review of the audit committee, independent auditors and attorneys. And we are reassured and we understand that this represents the exposure of the Company.

Now, when we go to slide number three, we can say that at the end of 2016, the Group continues to maintain a solid financial position. We would like to highlight a number of points; a reduction of the level of leverage of 0.3 times EBITDA and net debt improvement of over BRL200 million, mainly in Multivarejo, a robust position of available resources of around BRL5.4 billion and I also would like to highlight the successful issuance of CRA in November when we raised BRL1 billion with a maturity of three years and at a very competitive cost.

Now, regarding the financial result of the quarter, we reached the level of 2.1% of sales lower than 20 bps compared to the Fourth Quarter of 2015. During the year, the financial result totaled BRL903 million or 2.2% as percentage of sales, a level practically stable compared to the previous year. The cost of the gross debt decreased 20 bps. A point of attention regarding the SELIC reduction, we already have 160 bps [ph] of reduction from the beginning of the year and this immediately impacts the financial result of BRL516 million [ph] in the Company's financial results.

I believe that Ronaldo has mentioned every 100 bps of interest rate reduction will have better financial results than BRL40 million end of 12 months. It is important to bear in mind that our expectation in 2017 in terms of financial results before the scenario of a drop of the interest rate is to operate at level of financial result close to 2% [ph] without considering the proceeds from the sale of Via Varejo.

Here I conclude my presentation of the consolidate financial statements. I'll give the floor to Luis Moreno, who will comment on the performance of Multivarejo.

Luis Moreno {BIO 17405185 <GO>}

Good morning, to everyone. Multivarejo showed throughout 2017 an important capacity of recovery and now results of the Fourth Quarter proved this evolution, although we have had a macroeconomic scenario that continued to deteriorate. I would like to remind you the economic cost test of 2016. This has been the consecutive year of recession of reduction of sales volume in retail according to IBGE. The retail market lost 4.3% in 2015 and 6.4% in 2016. In addition to this, we had an expressive increase of unemployment, which reached 12% during the Fourth Quarter and represents 12.3 million people without jobs. So it's even more relevant when we compare it to the previous year. This increase of 460 bps vis-a-vis 7.4% during the Fourth Quarter of 2015. Within this context, Multivarejo generated in 2016 an adjusted EBITDA of BRL1.520 billion, with a margin of 5.6% EBITDA -- adjusted EBITDA margin.

In the Fourth Quarter, Multivarejo generated an adjusted EBITDA BRL494 million, with a margin of 6.6% of evolution of over 170 bps regarding the Third Quarter. This result was achieved through strict cost control. Our SG&A significantly below inflation and more stable level of gross margin of 26.9% versus the previous quarter. We understand that this level of gross margin already -- the competitiveness aspects of our commercial strategy and we are not anticipating additional pressures.

Regarding sales performance, Multivarejo reached its best level in the Fourth Quarter, gross sales same-stores ex-calendar of 4.2%. This performance represents an improvement of 5.35percentage points versus the beginning of the year. I would like to highlight the evolution by quarter of growth same-store sales ex-calendar minus 1.2% during the First Quarter, plus 2.3% Second Quarter, plus 3% Third Quarter, plus 4.2% Fourth Quarter. This evolution of non-food was more important, reaching over 18percentage points of improvement vis-a-vis result of the year. With this result, non-food was positive during the Fourth Quarter with January sales, we reached four consecutive months positive growth.

In the case of Hiper, the evolution was also very relevant in gross sales same-stores ex-calendar, an improvement of 12.6percentage points during the Fourth Quarter versus the beginning of the year. This complete reversion of trend confirms the success of the evolution of our strategy for the extra flag. If I would just look at flag, we saw an improvement during the Fourth Quarter that increased the pace of growth. I would like to highlight that we had commercial actions at the end of the year, on Black Friday, growth of 36%. And during every Pao de Acucar anniversary month, we reached 4% growth.

And the market share Multivarejo 150 bps during the Fourth Quarter that's confirming a linear improvement throughout 2016. Now within Hiper channel Extra Hiper gained market share and volume during nine consecutive periods from 4 to 12. It is worth reminding that we had this good performance with Extra flat with three less Hiper stores. Now our expenses, our performance was also very positive. Store expenses grew 1.2% in the year and 0.5% in the quarter, this is significantly below inflation. In order to achieve these results, we have obtained significant gains in electric power efficiency with the roll-out of the Greenyellow solution. At the end of 2016, we totaled 300 stores with these projects with gains of 20% to 25% in the consumption of electric power. For 2017, we forecast 200 more stores, reaching a total of 500 at the end of the year, contemplating all the Extra Hiper, Extra Super and Pao de Acucar stores. Only Proximity stores would remain independent.

In addition to these energy cost reductions, we attained an important productivity gains with headcount expenses. In the year, we gradually reduced our headcount in 7,000 FTEs, always very careful not to impact the level of satisfaction of our customers. Now speaking of customer satisfaction, we have achieved important gains in this area throughout 2016, these gains occur not only with the improvement actions implemented in stores. But also due to our ability to understand and being assertive on how we service our customers through our Customer Satisfaction Index.

This index was implemented at the beginning of the year where we measured 25 attributes on a quarterly basis store-by-store with approximately 100 customers per store. During the Fourth Quarter, we carried out the third cycle of research where we observed continuous improvement in each period in all the formats. The overall Multivarejo satisfaction index went from 71 in June, 73 September and 75 in December. This improvement in customer satisfaction was also confirmed by an independent study led by the UBS Evidence Lab, what consumers think of their food retailers. 500 consumers were surveyed and Extra -- out with the highest improvement during the last 12 months. In a study which takes into account hypermarkets and wholesalers, we attained a highest score within this group.

Now, this balance between cost optimization and service was only possible with different initiatives implemented tools to better allocate resources, better investment in training of personnel of stores. These efforts will be intensified even more in 2017. As an example, we have two additional initiatives that have been deployed since the beginning of the year. We launched the plan that will allow us to double the amount of Multivarejo employees to open the checkout in peak times. 28% of our employees are checkout operators and we want to create the checkout operators to 60% through the implementation of the polyvalency. During the second initiative, we are launching a clarification program of productivity for all our employees in the stores, very similar to what we launched in our distribution centers.

Now speaking about each one of the formats, in Hiper in 2016, we identified our value proposal to offer the best purchase, complete purchase option before a crisis scenario and the increase of the wholesale channel. In 2017, we will focus on the great differentials of Hiper to accelerate our market share gains. Now, this year we will also strengthen our position in non-food through partners with authorities in non-food categories that complement our operations. We will roll-out the textile model of Exito Group that has already been implemented in four stores, which improved sales between 20% and 30% in this category.

And this will be extended to over 30 stores, guaranteed excellency in our perishable part, increase our exclusive brands even quality and focus, help to identify the use fidelity program and CRM program. And to strengthen our value proposal with festival products, et cetera. In our supermarket, we'll also receive special attention in 2017. We have a dedicated team since the end of 2016 to identify and capture gains in the format. Our view is that this super that today would have the size to be the fifth, sixth graded retailer in the country must have a specific proposal value and the values it's differentiating attributes. Now throughout the upcoming months, we will be able to discuss in depth the results of these initiatives.

Now Pao de Acucar, we will be very ambitious in our projects and improvement plans for 2017. We will combine initiatives in different front grow their representative of employees to service our customers during peak moment, new and effective programs for our store teams that will give quality service. And greater use of technology in stores to better allocate our resources and to streamline service.

In addition to improving our service level, we will have differentiating elements from Pao de Acucar that one would be the exclusive brand portfolio TAEQ that has a very important role when it comes to deliver healthy products at an accessible price to our customers. And at last, we will transform a loyalty program that today represents 75% of our sales. Our focus will be to leverage at most this asset that is of great value that we have in-house in order to have accurate individual communication with a more loyal customers.

Now Proximity, we reviewed all of our distribution processes, opening a new distribution center dedicated in 2016. We also carried out optimization of our store portfolio closing extra Minuto stores. Now this action allowed teams to focus on more profitability. And the result was an improvement of 260 bps in the EBITDA of the format. And there are new allied format that is based on the business model of Exito Colombia, we reached 102 stores at the end of December. And we continue a strong expansion pace with the target to achieve 500 stores at the end of 2017.

This new model allows our business to capture important gains with greater scale and penetration of exclusive brands as well as generate an incremental increase of financial service. I would like to strengthen our priorities for 2017. Number one, we will continue optimizing our asset portfolio mainly with conversions of Extra Hiper to Assai. We already have three closed stores this year that will be converted.

Number two, to intensify the role of our own brands, accounting with the experience of Casino and Exito Group, both in food categories and non-food categories to achieve this target. We will account properly positioned brands like Taeq and Finlandek. And three, continue with the optimization of our store logistics through an expressive increase of cross-dock and that's all. And we will also implement a collaborative platform with the industry to increase our efficiency in the flow of our merchandise.

Four, to improve stock improvement to capture BRL500 million, improve our (inaudible) rate index at the same time to further increase our efforts and investments in operational excellence of our stores and logistic through the deployment of new tools and technologies. We will therefore provide a better shopping experience for consumers, especially regarding waiting time at check-out and reducing price discrepancies.

Six, capture significant gains with the deployment of a new promotional management tool that will significantly increase our ability to direct our promotional investments. Seven, we will focus this year on the digital transformation of the shopping experience. We have a dedicated team. And I'm sure we can make interesting announcements in the Second Quarter about this subject.

Now to come to an end, we understand that we have many opportunities to capture throughout these years, although with the challenging macroeconomic scenario with rising unemployment. I would also like to pay special attention today to Marcos Samaha and Marcelo Bazzali, who have practically assumed the Executive Board of Extra and the Executive Board of Pao de Acucar and will conduct the operation of our businesses. In addition to these changes in the management of our operation, we believe that the key condition for success when operating in this crisis scenario is the ability to execute our business in distribution processes with the high level of accuracy. With this, I mean the greater accuracy in the logistics chain, accuracy in our communication with customers, accuracy in our definition of offers, accuracy in option of products for each store and our pricing. This effort regarding the accuracy of our operation will be led by (inaudible) our new Executive Director of Category Management and Marketing. I have total trust in this renewed team of Multivarejo to face the challenges of this year that have started with the very promising outlook.

Thank you very much. I pass the floor to Belmiro of Assai.

Belmiro Gomes {BIO 18107864 <GO>}

Good morning, to everyone. As Ronaldo and Christophe showed an evolution of 36.8% in sales, although a growth of 25% of last year, the fourth [ph] growth is very consistent in growth regarding the other quarters and we have a slight here in the inflation of commodities that weren't very high during the second and Third Quarter that impacted same stores. We highlighted the Fourth Quarter with the expansion volume. The number of stores that were opened during the Fourth Quarter, we opened seven new stores in 54 days.

These stores are distributed in six states in Brazil, for the Assai team from other areas had to strongly dedicate themselves to this effort, we opened our first unit in the state of Para, the city of Belem. This is a very strong store with very good performance since it's been opened. Our second one (inaudible), Jardim Bahia, Paulo Afonso, this is an area that did not have any cash and carry operation. Assai is the only one in a radius of 150 kilometers. The third in Mato Grosso do Sul. And finally we have a new store model in (inaudible) store.

These stores on the same base, as Ronaldo and Christophe mentioned the conversion stores, Sao Vicente and Pilares store that was also opened at the end of last year, these are the two pilot stores of store conversions of Hiper Extra to Assai. The result of these two stores is, they've been very assured because we have multiplied our sales 2.5% the volume and the increase of flow above 30%, which shows how assertive we were and of the progress that we have in our Multivarejo.

The expansion during the Fourth Quarter represented 40,000 additional square meters in Assai and over a 100,000 meters of build area. As we said Paulo Afonso was a record. And this shows you that we're heavily trained to continue with organic expansion or conversion. Now, even with the strong expansion, the margin during the Fourth Quarter maintained itself aligned with the sales growth.

Now, the expenses have also dropped regarding the Fourth Quarter of last year of 2015, dropping from BRL1,033 million to BRL1,034 million, even with operational cost pressure, expansions to carry out the opening of these stores, we maintained the strong contribution of the anniversary campaign during October and November. We had addition -- record addition, 34% were activated by customers bringing in benefits. This is a campaign made by the suppliers. And the suppliers were together with us in this campaign, we ended 2016, very positive 40% of progression in terms of sale of consistent growth. This is the result that Assai has shown year-on-year 2016. We end with the market share in the wholesale market that has been growing. But our share of 4percentage points.

And as Christophe mentioned, market share of 35% increase. Well this is a year as we compare our growth to 2015, we added BRL4.4 billion in sales. Now, outperforming or we have over 100 stores and Assai finishes with 107 stores, 13 new stores, we would like to highlight the maturity of opened stores in 2014, 2015 and even those opened in 2016 have showed us a performance above expectation. This is a result of the acceptancy of the customer. They like this new model of store that we have been creating since 2012. In 2016, where we saw a challenging economic scenario. So within our different publics, we've realized clearly that there are, for example, people are cautious to buy. Now this has been offset by the increase of consumers, because they like our business model, especially with our new stores.

So in 2016 there is a combination of same-stores of -- there is a flow of -- customer flow of about 10%. And we have seen this in this new model of stores, this new model of store has better environment, the customer has a better purchase experience, we can provide better services and there is advantage to have a lower operating cost and the EBITDA of the open stores with the new format are better than the past model, although some stores are undergoing the maturity period. This has changed the profile of customers that buy on the wholesale market. In last year, we listened to over 10,000 customers to see how they will remain when the economy recovers, 9% say that they will remain loyal due to the price difference and also because of the difference of prices and because of the experience that they have in the book store with a new model.

Now the growth of 2016, 40% [ph] also same store by flow and expansion. We -- Assai created 5,000 new vacancies with strong investment in training due to the growth in order to sustain the growth of the year and the subsequent year. We invest over 800,000 hours of training and we are talking with 22 process [ph] in order to maintain the pace of expansion even in new regions. Last year, we reached the Northeast where Assai has been present and we have to maintain the dissemination of control of processes, automation. And guarantee the low cost of the operation, the contribution for those result in same store then it has to be highlighted.

Last year, we had food inflation, especially in basic commodities. And this was above official inflation. Last year beans, dairy, milk, sugar and because that results of the inflation was above the official inflation. We also had an inflation that was highly. But slightly above official inflation. But this is a point that this year we believe that some food categories will not suffer this. They will have good crops. And we will have problems. Now we -- and with an evolution of 39% of sales high, in line with 0.3 of (inaudible). Now this is a result of store maturity, a better improvement of control efficiency that our team has carried out and better commercial conditions.

We have tried to negotiate together with suppliers. As I say, growth and presence in more regions, we can leverage our operational cost in terms of volume. So with the net income and evolution of 95%, well, the discipline and expenses, expenses grow even with the impact of the expansion. So today when we say, we withdraw the expansion, we have a volume expansion inferior to 10%, the expense of one digit and this characterized the wholesale model and this way we can be competitive. We'll deliver to the customer a good purchase experience in addition to low prices. So operational team is very disciplined.

2017 Assai, we will continue expanding through new stores, because we want to continue with six to eight stores over the joint effort with Multivarejo to try to convert Hiper market where we identified that the region is more proper for the wholesale model. Currently, we have three new stores under construction. But two stores from the Extra conversion project and we will start building in the month of March. We will have three additional stores. And in the first semester, we will have new inaugurations. So we don't concentrate that at the end of the year profits for 2017 [ph] is that the customer still should look for new model.

There is great expectation of the improvement of legal entity, especially food services. So we also expect to have an improvement for the small enterprises. They're cautious, they're waiting to see. But we see signals of optimism with the changes in economy also a lower cost of capital will allow enterprises to buy more. We will have record harvest in terms of food. So pressure over inflation. So we will have the lower food inflation than last year, especially basic food or staple. But we're doing everything to maintain the growth of us at the same level of the last year with sustainable growth. We've also strong cash generation that have supported Assai and this has increased the contribution to GPA and Casino.

And now, I'll give the floor to Dany.

Daniela Sabbag {BIO 18861490 <GO>}

So now we can start our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Mr. Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning, to everyone. I'd like to have to see the margin pressure on Extra and the prospects from here on. And the recovery of growth. Now at the end of the First Quarter last year, well the figures show everything but this also impacts the margin. What I would like to understand and perhaps you mentioned this in the call that is the strategy of the company is to invest in gross margin that through sales leverage, you have a greater nominal EBITDA. So you had again in EBITDA. I would like to know if you have an idea of what is the level of same-store sales we should have -- to have the nominal EBITDA gain due to the margin investment that you have. And along these lines, you also said that you don't -- you no longer expect to drop in margin in Multivarejo and because your concentrated in Extra.

I would like to understand, do you believe that the suppliers will continue paying part of this investment and how have you negotiated with the suppliers in this sense? And my last question is, how is the competition reacting to this extra campaign? Do you monitor the result? What has been the response from the competition? If you believe that any pressure from the suppliers, from the competition to do something similar to what you're doing, how do you assess the sustainability of the partnerships that you have with your suppliers when you compare it to the competition? These are my questions.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

On number 1, regarding our margins, we consider that the basic margin is at a stable level and potentially may improve throughout the year. We have achieved the competitive level that we needed to deliver a complete savings proposal to our customer. We understand that a possible improvement of our margin from here on is not a result of prices. Perhaps this will be on how we invest on our promotion. We will -- we are developing tools that will help us to be much more assertive in these investments per category, per product and potentially using our CRM in a more individual fashion. Today, like our competitions, we carry out strong promotional efforts. And the gain will be how assertive and how accurate we will be in investments. Well same-store sales will depend on the evolution of our economic context. We expect during this first semester to compete with unemployment level -- above the employment level of the first semester of last year and this trend has to change during the second semester of this year, where we will compete with an unemployment level comparable or lower than that of the last year.

Now regarding our competitors, of course, particularly in Hiper Extra, we had a market share gain and in volume during nine consecutive months since April 2016 and the competition is within the same situation facing a challenging situation with additional promotional investment. And customer is price sensitive. And what we can see in the format that had regardless, it will broaden the amount of promotional products with -- even if we don't broaden the amount of promotional products, the sales in promotional share is greater and this is a result of our current context. And how price sensitive our consumers are. Well in 2017, we believe we will have a stable margins and we will continue with strong control of expenses and optimizing expenses with multi-functionality programs that will allow us to deliver the level of EBITDA that we established with the progressive improvement throughout the year.

Operator

Thiago Macruz, Itau BBA.

Q - Thiago Macruz {BIO 16404924 <GO>}

My question is regarding the other operating expenses. We have difficulties in this lines especially. When we see 2016 regarding projection, this is very similar to the level of our G&A. I'd like to understand how should we project the plan, what are your expectations for this year? Do you believe that this line will be BRL600 million? Do you believe that BRL600 million is sustainable and stable? And in 2017, 2018, do you believe that we will have a significant improvement in this line?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Thank you, Thiago, this is Christophe answering. Now the non-operating expenses, the other operating expenses totaled BRL560 million in one year. To project this, we have to see how this BRL570 million are broken out -- this BRL560 million, I apologize, is mainly broken out BRL100 million constant restructuring, adjustment of restructure, we understand that with structuring -- are pretty more to the past than to the future.

During two years, we strongly adjusted our structures. So 20% of the expenses of the year's will not repeat themselves. There are always small defects. But they shouldn't repeat themselves. That side, the second block of our expenses BRL100 million -- a bit higher than BRL100 million will be the effects of the closed or write-off. We closed a great number of stores throughout the year 2016. We will close less stores during 2017. Therefore, this expense growth dropped. Then the BRL100 million in write-off. We have the effect of the first SIE conversion. The conversions carried out in 2016 and a conversions that we'll have during the first part of the year of 2017. So the impact should also reduce or be more marginal than what we observed this year.

Now the third block of contingencies is related to two tax provisions. Number one, during the Second Quarter and the second one is as I explained regarding the ICMS accounted during the Fourth Quarter. Today, we understand as tax contingency is at the level of provisions that we have is not exposing us to greater adjustments in the future. Now this part obviously is difficult to forecast because it will depend on the legal share and management share [ph]. So it's very difficult to answer in terms of predictability. Now what I can tell you is that today our provision is according to our real exposure. Speaking in a global fashion, we can imagine that BRL560 million will go back to significant lower levels. That would be a level that we had before the crisis.

Q - Thiago Macruz {BIO 16404924 <GO>}

Just a follow-up, now regarding the food inflation, we have lower food inflation expectation when we compare it to the past two years. How does this affect your business, should I think that this is negative because by enlarge you will suffer pressure, should I think that perhaps this can mean operating leverage, you will sell more volume, more products, how do you see this for the year 2017 already considering the expectation are flat income?

A - Belmiro Gomes {BIO 18107864 <GO>}

Belmiro answering. As a matter of fact, last year we had the weather which affected our crops. So I believe that this year, we will have a lower level of inflation on food. This impacts more Assai and Via Varejo. But we also believe that as the customer has cash availability because they're paying less for their basic staple, they can also migrate to other categories and these are categories that they stop buying for a period.

For example beans were as like BRL100. The kilo of milk is more expensive than gasoline. Now this is cyclical from communities and these cities [ph] are the staples. But we should have an impact of Assai. We also -- we create targets. But on the other hand, we will also have a lower pressure and more significant pressure because the consumer will have more money available for other categories. There will be positive on one side and negative on one side. And this will offset itself.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Adding to what Belmiro, the greatest inflation pressure that we had was on commodities and of course, this takes away the purchase power of the customer. So with the drop of inflation and commodities, the purchase power will migrate to other categories that offer better margins. And in the case of Multivarejo, this could cause a positive impact in the margin mix of the different categories.

Q - Thiago Macruz {BIO 16404924 <GO>}

Excellent. Thank you very much.

A - Christophe Hidalgo {BIO 17982648 <GO>}

So we believe that Belmiro mentioned we've had weeks where food inflation was 16%, 17%. But throughout the year and we will not have this in 2017, we believe that throughout the year, lower inflation generates greater purchase power. And even if you loosen the volume, I believe the general result for the company will be positive. Lower inflation in our view will be positive for the year to the company.

Operator

Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning. I have two questions regarding the gross margin. The first one is to Luis Moreno and Belmiro. Now growth, Multivarejo during the First Quarter there was a positive seasonal effect and this is something that we didn't observed in this quarter. Why is this or this is how you account your promotion. So the seasonal effect is lower during the year? So we should work with a gross margin closer to this 27%, I would just like to understand how we can project the evolution of the seasonable effect. And the second question regarding gross margins, there is a gross margin pressure, can this also be connected to the opening of new stores? I don't know, because they strongly impacted the Fourth Quarter, because you work with lower prices in order -- until you normalize the traffic in the stores, does it work this way as well in Assai?

A - Luis Moreno {BIO 17405185 <GO>}

Regarding the margins of the Fourth Quarter, the breakout of the Fourth Quarter was exceptional this year with a month of December where Christmas was during the weekend. So -- although we had very good sales in October and November, December that traditionally is the month that most contributes in the margin makes up a quarter wasn't so high in same-store sales mainly because of the calendar and New Year and Christmas were during the weekend. So there was an impact of less leverage of this margin. But this is because of the calendar of December.

A - Belmiro Gomes {BIO 18107864 <GO>}

Thank you, Gustavo for the question. Obviously, likewise, like other operations mainly when we go to new cities, like at the end of last year, a greater investment in margin in a wholesale model, we don't have investments in marketing. So we embarked a new reading where the brand wasn't known and the investment in marketing is carried out in actions during the inauguration and this is a strong investment. But also the importance of these openings when we see 40% of the evolution of Assai last year, we will see (inaudible) are in new stores with this magnitude of expansion, although the investment in margin isn't great, this causes an effect. So of course, we analyze them separately before there is an effect at a given moment and as this store matures this spring, this store to more regular levels according to the region where the store is located. But the impact is result of the expansion volume that we had during the Fourth Quarter.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

So can we work with stable gross margin here on with operating gains because these new stores that you're opening, they represent a lower operating cost?

A - Luis Moreno {BIO 17405185 <GO>}

Yes. We can work this way, we continue expanding. This is what we've seen there in the past year. Every year you have a cost reduction or improvement in margin. These in-stores that are maturing. But we opened unit as Assai wants to continue growing this year. Between stores and conversions, we will have both effects. So the expectation for the year is a slightly gain in margin because the expansion represents less than last year. But there will also -- we will also have the impact of the stores that will be opened in 2017. Thank you very much.

Operator

Franco Aberlardo, Morgan Stanley.

Q - Franco Aberlardo

Good morning, to everyone. Thank you very much for answering my question. My questions have been answered. I would just like to post two additional questions, a follow up on other expenses. Could you give us the stability of how much you have accounted in expenses with store conversions during the Fourth Quarter and how much should we expect in 2017?

Second question would be regarding Proximity stores. We had around 20 closed stores during the Fourth Quarter. I would like to understand if you will close more stores this year, talking about Proximity stores and why would you close these stores. This is something that is not clear if the location isn't ideal, the sales is below expectations, these are Extra stores because we need to find out who's going to have had better performance. Could you give us an answer regarding this?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Good morning. Franco, thank you for the question regarding other expenses and visibility and how much we have accounted for our store conversion. As you know, we have a conversion plan of 15 to 20 stores in 2017, we converted two in 2016. And we consider in the 2016 of BRL24 million [ph]. This corresponds to the first converted stores and the effect of the eight [ph] stores that will be converted and have been already identified. So they will be converted during the first semester of this year.

So what this means is that, we can expect for the year 2017, if we complete and we will complete our planned 15 to 20, we need an additional provision between BRL20 million, BRL25 million, BRL50 million total. The half will be the first impacted in 2016 and the other half will be impacted in 2017.

A - Unidentified Speaker

Good morning, Franco. Thank you for the company. In the Proximity segment of the stores that we closed, this group of mini-market extra since 2007 they've existed. Therefore, these stores, well presented low profitability. And as we mentioned beforehand, we are strongly focused on Minuto stores. During the year, we opened 14 stores and we will pursue this expansion working with all the foundation best logistic cost. We had a significant evolution in the Proximity segment throughout the year 2016. Therefore we remained focus. There are a number of profitable stores and normal new stores that were opened from 2014 till the date either Minimercado have presented significant results. But there are still many of stores that will be closed throughout this year. Throughout the year, we closed 41 stores. From here on, we understand all the efforts to improve our result has already -- we even have a surplus even in EBIT.

Operator

(inaudible)

Q - Unidentified Participant

Good morning, to everyone. Just two questions here. In 2017, you said you are satisfied with the level of commercial competitiveness of the Extra format that has been the driver of market share in 2016 that was having more competitive prices vis-a-vis the past year. So now you are at the same level of price with the competition that when I see the performance of 2017 what have you seen in terms of sales, are you still gaining the same market share that you were gaining at the end of the year? Is the market share gain is slower? Could you give us an idea of what your sales performance is like? Do you believe that your competitive position has stabilized itself now?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Unfortunately -- well good morning. Unfortunately, we still cannot give you figures regarding 2017.

Q - Unidentified Participant

Okay perfect, I will rephrase it. When you see your gains of market share throughout 2016, how much of is result of greater competitiveness in price and what is the result of other initiatives? Of course, you have carried out a number of initiatives that will help you to gain market share in the company. But I don't know if you will continue being commercially aggressive.

A - Marcos Samaha {BIO 19808820 <GO>}

This is Marcos Samaha from Extra. Throughout the year, we observed that the inflexion of market share was parallel to the implementation of commercial programs that precisely were focused on giving better price perception to the customers. So as we differ the programs in April and in June, we observe the evolution of the market share that was consistent and an improvement month by month and the last quarter with the crowning of everything. Now, simultaneously we also measure our other price perception indicated in surveys that we carry out directly with our consumers. And this has also improved throughout the past quarters during last year and we ended the year with an excellent position. Therefore, we understand that the benefit of this is something that can be consolidated in a consistent fashion.

Q - Unidentified Participant

And my second question here would be, the company have carried out a number of initiatives to control cost during the past two years, with expenses below inflation. When we see 2017, is there still more (inaudible) space to become more efficient? But on expenses, do you believe that your expenses will remain below inflation or from here on things will change?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Multivarajo, one of the great initiatives was electric power efficiency. In 2016, we ended with 300 converted stores to the new electric power efficiency. Now, great part of this gain will be observed throughout 2017. And additionally, we will also convert 200 more stores to the power electric efficiency model and we believe that with electric power there is space for improvement and to drop our expenses. And of course, the expense -- and also with head count -- while with the drop of headcount, we will be able to improve our expenses in Multivarejo.

Operator

(Operator Instructions) Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

One question about your margin due to the initiatives in terms of efficiency to improve service inside customers. My two questions here would be, what should the level of the same-store be regarding basic inflation so that you can have operating leverage? I believe that this is a big challenge for 2017 because the gross margin will be less stable now the recovery of the margin will have to come from operating leverage. So where do you see a breakeven point where the operating leverage will take place? And here for Marcos and Luis a question. I know you've announced analyzed a number of initiatives, points of focus for 2017. It's very positive to see all of this energy and all your focus. A question for Labrudi. If you have to highlight two initiatives for 2017 -- two very important points for 2017, which initiatives would this be, would this be Events?

A - Belmiro Gomes {BIO 18107864 <GO>}

Well we believe we've had the initiatives that are being deployed in the Multivarejo. As I mentioned, Luis, Christophe mentioned that we've reached an adequate competitive level and with the deployment and prefectural of these commercial policies, I believe that they should result in an increase in sales volume. And this volume will dilute the Multivarejo costs. And as a result, we will improve our profitability. Now, another point that we're working on and we are still talking about it because it's in a very initial stage, we are discontinuing with Via Varejo. We will have a company that is smaller from the, say, building point of view and we will probably have a corporation in the GPA very smaller. And this will also contribute to cost reduction not only Multivarejo. But all of Assai. So we will have gains although something -- although we will have cost in 2017 to reduce these costs. But at least the prospects for the future will be excellent although this will incur some costs during 2017.

Q - Irma Sgarz {BIO 15190838 <GO>}

What should be the level of same-store sales to generate leveraging, it's important to highlight that according to Nielsen data the total market of food stores -- in Brazil dropped 6% in Brazil. Now for the 6% of the drop of the total market exerts pressure over the leverage, our performance was better than the total market, nevertheless, it is challenging, because there has been a downturn in consumption. We believe this consumption stabilizes at negative levels 1% to instead of minus 6%, we could have positive leveraging. Thank you very much.

Operator

Tobias Stingelin, Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Luis, just one question regarding Extra Super, you said that you hired a company that is reviewing the model, you have a 195 stores, do you still have a lot of stores that you will have to close, will you have to invest a lot, if you could tell us what was same-store sales, Extra Hiper and Extra Super?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Number one, regarding Super initiative, the focus during 2016 was more on Hiper with all of the commercial initiatives. Super adopted the same in commercial policies. Nevertheless, what we observe this year is with more --- it's dedicated -- we're more dedicated on this format, because they are very close to the customer. We have at the end of last year, we initiated a number of focus groups with customers to better understand what the customer needed from Super Extra. And we have already identified many elements that will allow us to generate incremental source with adaptations to that proposal value. What we've seen is the many customers live close to the stores and they would like to buy everything that they need in these stores that we identified some barriers and this is why the customer doesn't completely buy their groceries in our stores.

Q - Tobias Stingelin {BIO 18290133 <GO>}

From the number of stores that you have, what will you do, you will have to do a diagnosis, you will have to close 50 stores, what are you doing? You're going to change the model and then see ---

A - Christophe Hidalgo {BIO 17982648 <GO>}

Well we have visited, we are talking about 192 stores, mainly in Sao Paulo and Rio de Janeiro, we have 12 in the Northeast. But the other 180 stores are between Rio and Sao Paulo. As Luis mentioned, these are excellent locations. We had 20 focus groups with customers throughout the month of January. And as far as we're concerned, there is a great opportunity to service this customer and meet their needs. And to be successful in the 192 stores that we have today.

Q - Tobias Stingelin {BIO 18290133 <GO>}

And could you quantify what the same-store sales was in Hiper and Super last year?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Unfortunately, we cannot disclose the information pro forma.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Could you just tell us qualitative, was it above the (inaudible) area of opportunity, if you can improve sales with lower cost if you can improve the 192 stores it would be positive?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Tobias, in a number of months, we will have this information. And we will have a great pleasure to give you and disclose all of this information.

Operator

The Q&A session has come to an end. We would like to give the floor for the final remarks of the Company.

A - Daniela Sabbag {BIO 18861490 <GO>}

We would like to thank everybody for your participation. The IR department is at your disposal to answer any other questions that you may have. Have a good afternoon. And have a great carnival. GPA earnings results conference call has come to an end. The Investor Relations department is at your disposal to answer any other questions. We thank you for your participation and have a very good weekend.