Y 2016 Earnings Call

Company Participants

- Alexandre Goncalves, Investors Relations Officer
- Flavio Dias Fonseca da Silva, Online Business Unit Officer
- Marcelo Lopes, Logistics and Supply Chain Officer
- Peter Estermann, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Richard Cathcart, Analyst
- Roberto Browne, Analyst
- Ruben Couto, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Via Varejo Conference Call to discuss the Results of 2016. This event is being broadcast also via webcast, which can be accessed at www.viavarejo.com.br/ir, and engage at platform where you can find the presentation. Slide selection will be managed by you. There will be a replay facility for this call on the website.

We inform you that the company's press release is also available at the company's IR website. This event is being recorded and all participants will be in listen-only mode during the company's presentation. After Via Varejo's remarks are completed, there will be a question-and-answer session, when further information and instructions will be provided. (Operator Instructions).

Before proceeding, we would like to clarify that possible statements that will be made during this conference call relative to Via Varejo's business perspective, projections and financial and operational goals are based on the beliefs and assumptions of Via Varejo management and on information currently available for the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances, which may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Via Varejo and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. Peter Estermann, CEO of the company.

Peter Estermann {BIO 15380447 <GO>}

Good morning, everyone. We would like to welcome you to our fourth quarter 2016 conference call to discuss our earnings. I have with me my executive management, Paulo Naliato [ph] who is in charge of the operations of the company; Flavio, who is those responsible for our online BU; Marcelo Lopes, responsible for supply chain; (inaudible), who manages our people; and Vitor, who is responsible for our furniture business unit. Felipe Negrao, our CFO, will be represented by Alexandre Goncalves, our Investor Relations Officer and Controller. Felipe is on vacation, well deserved vacation.

The fourth quarter was a very important period for Via Varejo. We took a fundamental stride forward to begin the consolidation process for our long-term strategy. In December, we completed the operational integration of our online and offline businesses, and we started working to structure our furniture business unit as we have told you before. With the integration of online and offline businesses completed, the multichannel approach started gaining force and momentum into the company showing some very positive and recurring results in both December and January of 2017.

We were able to reduce our logistic cost. Service level for the online business is already impacting positively the profitability of the business unit, and in January, we had some very positive results in that regard. Our online and offline teams are fully integrated here at the Via Varejo in Sao Caetano.

And with that, we begin our journey to create a digital culture in the company -- this company. Via Varejo has a proven ability and capacity to implement and transform. We are extremely optimistic about the coming steps that the company will be taking in that direction. Our multichannel strategy is being implemented with speed, quality, and with very promising results. Just to give you an example, our click&collect is already implemented in our at 975 stores. We are the only company in Brazil offering this mode of purchase with such a broad assortment of product. And we have overlapping products online and offline and they are available for store pickup within a few hours after the order is placed and that began last week.

We are dedicated to improving the quality of service of that modality. I'm going to give you some numbers later, and this is one of the most important pillars for the company at this point. Just to give you an example of some aspects related to this kind of recent movements. We are already delivering more than 80,000 sales using the click&collect modality per month, which is the three-fold the average volume of the market. In the quarter, marketplace which a very important pillar of our online strategy grew 13%, and in 2016, we grew 42%. We're going to give you some more detail on this later on.

Our delivery deadlines for online evolved 5 percentage points in February when we compare year-on-year, and we have delivery accuracy which is over 90% -- 95%. Online delivery deadlines were reduced by 21% last month and we are achieving an average of 3.4 days for delivery in capital cities and 4.8 days all over Brazil. I would just like to inform that we still have important opportunities in our pipeline that should improve these indicators even further putting Via Varejo in a very differentiated competitive position in some market.

Our marketing is going through a lot of changes this year. GMV is in the core of our strategy and it is bringing some very positive results also inhaling some cost reduction. As of this year, all of our marketing actions will be fully included in our multichannel. To end, and to give the floor to our Investor Relations Officer, like I said, today he will be representing our CFO, Felipe.

Before I turn the floor to him, I would like to highlight a couple of points. First, we will continue to focus on improving our operating efficiency, particularly through our MOVVE project, which have been bringing from significant results when it is implemented and deployed in all of our stores. Now we are in the phase of consolidating this project. In January of this year, we've tried at capturing some very significant results linked to this improvement in efficiency. We are also going to be focused on efficiency.

We want to capture all of the synergies that we promised to you with the integration of the online and offline businesses. All of the synergies are being followed faraway every week and we are convinced that we are going to be delivering more than we actually promised. The curve to capture these synergies that we currently have shows that we are going to have a better result than initially forecast. And we will continue to improve the quality of service to our customers which is fundamental, and we want to improve in all of our initiatives that will consolidate a truly digital culture in the company with an important focus also on the results of the company and focus on bottom line.

I'm going to give the floor now to Alexandre Goncalves, who will make some comments on the results of the quarter.

Alexandre Goncalves {BIO 19858024 <GO>}

Hello, everyone. We are now going to talk about the operating results for 2016. Before that, I would like to make a quick comment. This presentation was prepared using pro forma numbers with the online and offline businesses that started consolidating since January of 2015. Our financial statements include the online system [ph] for the month of November and December of 2016.

So, the information is all pro forma with the goal of showing to you the new results trend for Via Varejo after the integration. So this is just to guide you in interpreting these slides. We are on slide four. As mentioned before, the company continued our market share gain both in the offline business and in the online business in the total market and specialty market. As with the online market, I would like to point out GMV recovery. It broke the negative trend that we have -- that we had in the year as you can see in the bottom chart and this recovery is strongly related to the transformation plan of the company, and it is also stemming from the online and the offline integration which was by the way one of the pillars for 2017 and '16.

On the right, we opened six stores, three Casas Bahia and three Pontofrio stores. 47 stores were closed, 23 related to CADE obligation due to the association between Pontofrio and Casas Bahia. So we won't be closing any more stores related to CADE obligation.

On slide five now please. For the 2016 pro-forma assessment, we can see adjusted pro-forma gross margin plus 3.5 percentage point. And we can see -- for the first quarter of 2016, had a good result given to the successful integration of the business and also due to the multichannel strategy. Just to give you an idea, the online remained stable in terms of gross margin -- actually the offline, he corrects himself.

As for SG&A in the bottom chart, pro-forma SG&A for 2016 because due to the slowdown of the company's sales and the nature of expenses which are fixed, it had an impact on our operating cash. It is important to highlight here that we had an SG&A -- pro-forma SG&A even considering that including that these expenses are fixed due to the legislation and even with the cost of the consolidation of online and offline businesses and we can see that our adjusted pro-forma EBITDA remained kind of stable.

On slide six, I would like to highlight a comfortable solid net cash position, BRL3.8 billion by the end of 2016, and this was after the consolidation of the online business. And we also had some suppliers' terms adjustments that also had a substantial impact and the payment of the intercompany loan with Cnova N.V.

On slide seven, please. Net earnings pro-forma for 2016 was 1,067 million impacted again by the online business -- by the capital structure of the online business. In 2016, the offline business had a profit of BRL95 million, while the offline (sic - online) business stood a loss of BRL845 million. The pro-forma net earnings was a loss of BRL750.

On slide eight, as a result of our credit policy for credit and continuous risk assessment improvement, delinquency in the portfolio performed as you can see on the slide with a reduction. Despite a worsening of the macroeconomic scenario in 2016 that we all experienced, we still have this kind of performance. We are going to be discussing a lot of these numbers during the Q&A.

For now, I'm going to turn the floor back to Peter for his final remarks.

Peter Estermann {BIO 15380447 <GO>}

So before we move to the question-and-answer session, I would like to speak a little about our expectations for 2017. To begin with, I would like to tell you that we are all here convinced that our company is going through a unique moment when we have this huge opportunity ahead of us, and we enjoy a true competitive advantage. With our strategic projects, projects that we have already designed and projects that we have started, we will be able to optimize the advantages that we have, because we have a footprint of brick and mortar stores which is very good throughout the country.

And we have an e-commerce company that is able to take advantage, a significant advantage of our existing platform and we have all of the other advantages that you well know. So we have high expectations regarding this new integrated company in 2017. In January, we were already able to see some significant results after this consolidated company. Also for 2017, we want to focus on improving level of service to our customers through a better integration of the online and offline platform, and we want to continue to implement a digital strategy in this new company. We want to consolidate just like we did last year, and in a very efficient way, we want to deliver all of the strategic projects that we have started. We believe and actually we know that we are still going to have the first half of 2017 that will be challenging. The market hasn't yet reacted as we expected. However, the month of January was very positive. February tends to be a slightly more difficult year (sic- month) than January but we are going to start March full-blown in full force, full steam and our expectation is that we'll end the quarter with the results that we set out to achieve.

Our vision for the first quarter is positive in accordance with what we projected, and we expect the first six months of the year will still be quite challenging, but the company is now more and more prepared to enjoy the macroeconomic scenario when it resumes growth.

We now begin the question-and-answer session.

Questions And Answers

Operator

We will now open the floor for the questions. (Operator Instructions) First question is from Richard from Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good morning, everyone. I have a question about the online platform, because I believe that in the last 18 months you did have many challenges with the consumer experience of the online platform and we did see some comments on (inaudible). I would like to better understand what has already been done in the last month and what you have to do ahead in the next 12 months in order to have a good customer experience on your online platform?

A - Peter Estermann {BIO 15380447 <GO>}

Thank you very much Richard for your question. This is very important. We are very much focused in several work fronts in order to improve customers experience in our online platform. We do have initiatives that are already showing results during January and February of this year. We do have room to go through and to improve still. And I'll turn the floor to Flavio Dias so that he can add to this answer.

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Good morning, everyone. About customer experience in the online platform 2016, they have a strong restructuring process in terms of business. Also, we did have to restructure teams and especially systems. This systems change that happened in the second quarter of 2016 as the company have decided to change the ERP to WMS, the DC systems and also the services system, the support system, we had to have a complex and reverse implementation. Therefore we did face some challenges in terms of customer service. So this platform, have a period of adaptation and also stabilization today.

And for few months already all these systems are fully established. After the conclusion of the logistics integration as Peter mentioned that happen at the end of the year around October or September. Then we started bringing to the online platform and increase in the service level, which is -- thanks to the joint work with Via Varejo's logistics team that is translated and reduction of the delivery time and the increase of the service level, that is deliveries made on time and also with cost reduction.

We can also clearly see a steep drop in the contract rates that we received for order and increase among the monthly rates of the NPS. And certainly the figures that you see however start to improve significantly from now on. So we understand that we have been able to well establish the system, the service, delivery time is following all indicators show it. And now we need to improve even further internal processes so that we can continue having good results, but we will see in the first quarter of '17, a great results in terms of customer service and customer experience. Thank you.

Operator

Our second question is from Irma Sgarz from Goldman Sachs.

Q - Roberto Browne {BIO 16864913 <GO>}

Good morning. This is actually Roberto Browne and thank you for this opportunity. I have three questions, but they're very straightforward. The first one, I would like to know about the trends of the working capital, especially in terms of suppliers, it has decreased a lot vis-a-vis the same period of last year.

The second question, you talked a little bit in the beginning, but I would like to have more details about trends in terms of margins in the online and offline businesses and also initiatives to improve profitability in each one of these segments? How MOVVE can impact margins on the traditional channel?

And my final question, if you can tell us about the growth per channel. What are you planning in terms of stores opening for 2017? Where are the opportunities for organic growth and how do you see the growth of the marketplace online? Thank you.

A - Alexandre Goncalves {BIO 19858024 <GO>}

Roberto, this is Alexandre. About working capital, what you have seen when you compare 2016, and you can project that for 2017. There was a reduction of terms and also to improve margins of merchandise, we have done that in the last quarter. So this is a trend that we have any projection for 2017.

Now Roberto, about what we are doing in terms of how much improvement in both channels on and off, it is important to say that the conclusion of the integration of these two channels and all initiatives to drop cost that have been already rolled out and now we are reaping the results. This is going to continue with an expedited capture line and approach in the first half of the year. So we can improve, margin improvement because of cost reduction also improvement in the profitability, and also we expect to have this improvement in profitability, because we are already working with a strategy, a commercial strategy that is fully aligned between these two companies.

There is something else that we will drive the profitability of the company starting in the second quarter, and this is -- that's when we'll have our new pricing system, both for online as well as for offline. And as I said in the prior call and in the prior quarter, our goal was to conclude a basic rollout process by the end of the year, we have concluded it. We are operating in a test mode. The results are extremely positive. And the idea is that by the end of the second quarter of this year, we have the system in full operation.

And you know that the implementation of a robust pricing tool does have a direct impact on margins and that could vary one percentage point in the margin depending on the maturity degree that the company has to rollout to this type of system and we expect that along the year, we have a positive impact in our margin, something around 0.3%, just by the implementation of this system that will allow us to price by micro region, by stores, clusters, and also, if we are interested in focusing the competitiveness in the specific region, because we will be following up movements of our competitors. So we do have great expectations about the results with this new platform and we believe that this will bring a very positive impact our profitability.

In addition to that, the company is better prepared to continue competing in the market this year considering that we are already taking advantage of the labor bank, something that was not happening in the first nine months of the year. So we have a good expectation about margin improvement.

And about the third question about the channel growth. The online channel have a very aggressive strategy growth for 2017. We want to grow that online channel into -- they are just low, they are just -- they are just more than the market growth, that's our intention. And what we have been able to do in January and February show that our strategy is sound in order to aim and to follow that goal. And the offline channel about opening new stores, I'm sure that in the first quarter, we'll continue focusing on MOVVE, which is the improvement of operating efficiency of a store footprint that we already have with the results that we can see because of this new management model, then we will have an important increase in revenue because of this project, again with the improvement in profitability, especially because we will have better sales performance, a drop -- the sales gap [ph] improvement on service level and a greater penetration of financial services and credit operations in new stores. The store that were part of the first and second cycles of the rollout process. So the ones that we have that implementation in the first half of that year already show consistent results.

And the last batch of stores also with a significant number, we did implementation in the last quarter, so they start to have that consolidation. So that strategy we already mentioned a few times when MOVVE is fully rolled out and consolidated, it will bring an additional revenue, which is equivalent to 40 or 50 new stores. So right now we are focusing on operating efficiency, improvement, and optimization of our current footprint.

For the second half of the year, we are considering a review of this whole footprint, but we don't have any final conclusion to see if we will open or not a new stores. If I may add about the online, clearly 2016 was a restructuring year, a year where we remodeled the business, the company underwent a lot of transformation and we had to review many processes, we reviewed management and also we switched systems. Therefore, by the end of 2016, we had a much foundation, so that we could build up from it, and so that we can aim that today that growth that Peter mentioned, this is going to be sustainable. We can say that, yes we want to grow in the online channel, but in a sustainable manner.

What is important here also in this profitability increases as in the marketplace, which is a very important driver for us. Here it grows more than the regular business and it is at profitability. We already have that. We have been pioneer in this marketplace segment in Brazil. We have over 2 million offers. We do have there an important share of it in our portfolio and we have been improving the support level we provide adding quality to the service, which is crucial for us. It's important also to highlight and that applies for the company as a whole and Peter has mentioned in his initial remarks, is the change that we are making in the marketing area. Marketing for Via Varejo will be more efficient. By the -- it is going to use the information from customers, advanced analytics, CRM, and we will be able to bring in more value with less investment, and I'm sure this will contribute much to the business profitability.

Q - Roberto Browne {BIO 16864913 <GO>}

Thank you very much for addressing all my questions.

Operator

Our next question is from Mr. Tobias Stingelin from Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

All my questions have been already addressed. Thank you.

Operator

Our next question is from Mr. Ruben Couto, Itau BBA.

Q - Ruben Couto {BIO 19172367 <GO>}

Good morning and thank you for answering my question. When you talked about expected synergies that you intend to capture, if you have approximately 60% in terms of the multichannel, can you explain where this is coming from? I think this is part of the online integration, the logistics integration. So, can you explain what is this gain in the multichannel process? If, -- I would like to know, if you see any benefits and maybe start seeing the online customer going to the store, are you doing any kind of follow-up, anything that could help us in execution [ph] and even sales per square meter of the store, because now you also have that online customer.

A - Peter Estermann {BIO 15380447 <GO>}

Thank you very much for your question Rodrigo [ph]. Your question is important and it has to do with something that's Flavio already mentioned. But I wanted to make it a broader comment in analyzing the strategic aspect and then I will turn the floor to Flavio, so that he can be more specific.

And now about initial synergies that we said that we are going to tap into, you remember that we had 325 million in unification inventory, that process has been concluded. We captured 345 million in the process of bringing together other inventories. Today, the company is working with unified inventories, although we are working with two different tax ID numbers. We were able to roll out a way to work in the company that would allow us to work with inventories that have positive impacts, not only in cost reduction and also having a good impact in the working capital, but also reducing bringing down the stock out level for both business and this is crucial to drive to increase both our revenues.

And in addition to that, as I said in the opening, we have been capturing more than what we expected. The logistics synergies are already in a very consistent base and we are also expecting to have even more positive results than what we had before. But now in the multichannel, we have gone forward extraordinarily in the last two months of the year.

I would like to highlight that we cannot forget that bringing together the online and offline businesses did start in the October of last year, that is we have three months of this consolidated company. The team was extremely efficient in these three first months. We ourselves were surprised or positively impacted by the speed and consistency and the quality of that full integration.

And the multichannel process is -- in our point of view, the greater growth potential that this company has not only in terms of revenue, but also for the contribution in the total margin of the company and the improvement for service level for customers.

I would turn to Flavio and maybe Marcelo can talk a little bit about this well. This is important, once the question -- has everything to do with the core of our strategy for 2017. So I'll turn the floor to Flavio and then to Marcelo.

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

That's great. I think Peter already explained the main topics and Marcelo can add to it. I think that one of the main sources for cost reduction and efficiency gain comes from the logistics integration, but to address a specific aspect of your question, you talked about customer information and to be able to drive that information in a way that we could provide them better support. This is clearly one of the main topics that we see in the multichannel process here, and now we've to work with database of clients that they not talk to each other. So this in course are ready to create a single database that we record all steps of this customer of that journey of relationship with us and have that available to the sales rep or to the website algorithm or to the triggering --email triggering tool, so that we can bring together many CPF, over 60 million of them with integrated information so that we can be better succeeded and providing offers and also in serving our customers. This is important for us.

In addition to that, we will gain by product offers that today are only available online for the consumer that is also in the store in front of a sales rep. We will have extra 18,000 sales rep selling a greater portfolio product. So, this is something that we call infinite assortment in the stores today, also [ph] the assortment will be available for our sales rep to sell that will be sold online. And this will bring us more sales, both from the stores as well as online.

A - Marcelo Lopes {BIO 18911032 <GO>}

Thank you for your question. This is Marcelo. Remember what Peter mentioned, we only have three months of this integrated company. If we take a step back, our logistics models were completely different. The online channel, you had four distribution centers that was fully focused in Sao Paulo and Rio in the Southeast region, and an outsource logistics where the routing management was done by third parties and we would have one or two operational or transactional lags with a bad quality service. That was for the offline. And so we were able to bring together all our logistics and operating platforms.

We closed two strong operations, online operations, and we are able to integrate those into our offline structure as well. Now we are operating together the trucks that delivers online, delivers offline as well. The routing of that operation is fully integrated. This is a proprietary management of Via Varejo. We do have a better service level and accuracy in the market and we analyze the potential of this platform. This operating efficiency is already providing something that the market does not have, 26 logistics units, this is now closed, that may be used in an strategic manner respecting the tax logistics efficiency that this country also provides not always -- the short way is the most profitable, but we do have strategies to use the portfolio to some -- this -- other markets. So, we are working now in a project for 2017, which is to change -- which is changing some stores into logistics operations and the idea is to further decrease our delivery time below two days.

There are some places where we can go forward to look for that and today the difference that we have in terms of logistics infrastructure that will allow us to deliver product in a radius of 130 radius kilometers will be of 90 kilometers. So, not everyone can offer that type of experience to consumers.

Q - Ruben Couto {BIO 19172367 <GO>}

Thank you very much. Now, a final question here Marcelo. How much and actually when do you think you would be able to receive this MOVVE platform as there is no logistics center?

A - Marcelo Lopes {BIO 18911032 <GO>}

We are working on that. It takes a longer time and also the costs are little higher, but we believe that 15 to 30 stores could be -- will have that profile, probably we would not do that or all those stores, 30 stores for 2017. Thank you.

Operator

Our next question comes from Mr. Gustavo Oliveira with UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone, and thank you for the opportunity. I've two questions. The first is, whether do you envision any loss in scale in case your asset is sold by the controlling shareholder in some integration in some areas, I see logistics or even purchasing capability?

My second question is, your capital structure seems to be very leveraged. If we consider all of the items that are out of the balance sheet, represent an EBITDA of 1 billion, very similar to your financial expenses of BRL1 billion. So, how are you thinking the capital structure for the company for 2017? How do you see the performance of the financial expenses, because it seems that you're going to have a good EBITDA gain this year?

A - Peter Estermann {BIO 15380447 <GO>}

Very well, Gustavo, I will answer the first part of your question. In terms of loss of scale, we have worked on all of our important fronts of work and we work on those quite in depth, and we do not envision any significant loss of scale for the company stemming from this process of sales. It [ph] talks about purchasing scale, it doesn't change anything in terms of our purchasing ability. With our expectation to grow our online business and the offline business particularly for Via Varejo, we are not going to lose purchasing volume or we will gain purchasing volume.

So, we continue with the same ability to buy and to negotiate with suppliers to have a very integrated approach with our suppliers. That's where IT, even with our unified contracts in terms of scope level of service, et cetera, we have independent contracts for every -- for each of the companies. So, we don't envision any risk of losing scale in that front.

And in terms of the other services that we have in synergy for the company, particularly shared services center, et cetera, we already working with a possibility of separating that kind of work. There might be slight cost impact, but we already know how to offset that. So to be very objective in my answer to your question, we do not expect any impact in terms of scale or significant impact on scale stemming from this process of separation of the company.

As for the leverage question, I'll give the floor to my colleague.

A - Unidentified Speaker

Well, Gustavo your question referring to the capital structure. We understand, that we've an adequate capital structure. Well, in level of business, we have a very comfortable cash position. Obviously, there is always room for improvement also with the online operation, but with our transformation plan in place, we'll be able to improve the capital structure of the company compared to what we have today. The lines are quite reasonable and the capital structure is quite robust.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

A follow-up question. You are thinking about growing your online business, but you are in need for capital will increase because of receivables et cetera, that requires more capital at least for now in Brazil than your brick and mortar business. How do you see your working capital in 2017? You guys have a lot of gains, you enjoyed gains, synergies and inventory and also because you didn't sell so much online. But when you seek online growth, perhaps you're going to need more capital. Is this a fair statement or do you have any initiatives to offset the need for working capital with the online growth?

A - Alexandre Goncalves {BIO 19858024 <GO>}

Gustavo, we don't envision -- we don't see a lot of differences between our online and offline business, the need for working capital. 88% percent of Cnova sales are usual item, common items that we have with Via Varejo, the offline business. So we don't see a lot of differences and managing the working capital will be done in a similar way that we have in our offline business. Perhaps we can later on discuss more detail and you can get in touch with us. But we don't see a lot of differences in our 2017 projections for working capital. Our working capital structure since December 31, 2016 is pointed to remain for 2017. We want to maintain a comfortable cash position with a focus on profitability. We will focus on a financial solidity.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you, Alexandre. I will get in touch with you. Later -- I want to drill down on this later. Thank you.

Operator

Our next question comes from Mr. Guilherme Assis with Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning. I would like to have a follow-up question regarding competition and what we can expect for 2017 and was your margin and pricing are driven? From what I understood with your remarks, I think you said that sales are slightly below what expected -- what was expected, net recoveries taking a little longer. And looking at the competitive landscape, there was an important change as of the fourth quarter, because you were able to enjoy the benefits applied to BIM [ph], the tax relief underlaid to BIM. Now looking at the future with a more challenging environment, now with the tax relief underlaid to BIM and looking forward with your pricing algorithms that will be deployed not only online but offline as well, what's your strategy to pass through some of these gains to improve competitiveness, perhaps to try to recover the gain in market share or should we expect that you absorb this, I mean, looking at the fourth quarter results, I think it shows a positive trend, but looking to our EBITDA, if we exclude the physical (inaudible) effect, the EBITDA is relatively low in a quarter that has Black Friday and holiday season, it's an important quarter, but normally you would enjoy higher margin. So my question is, should we expect a stronger margin recovery, given all the synergies captured or should we expect a reinvestment to recover prices and improve the operational results? Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Thank you, Guilherme for the question. I think that you raised some quite important points, but I would like to underscore those. The first quarter as two extremely important seasonal events for our business, Christmas and Black Friday. And we start the second week of January with the January sale. So, this is the period when you have a significant sales volume with greater pressure on margin. We do not intend to improve our competitiveness by using the tax relief under labor bank. However, as we said in the beginning, we continue with our very aggressive commercial strategy in terms of competitiveness.

The company when closing 2016 as already mentioned, the company gained market share considering the total market and the specialty market, and our strategy is to continue to gain more market share, however, will gain market share always looking at our margin. The moment we have some seasonal event and if we understand that their lies an opportunity to gain market share, yes, we might try to be more competitive.

I think company starts this year, as you put it yourself better prepared to compete and to continue to gain market share. I think that this is a very important point. And with this new pricing tool, we are going to have better BI, business intelligence, to price differently according to the regions, something we did not have in 2016.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you. Excellent, Peter. May I ask a follow-up question. I think you spoke a little about that. Could you give us perhaps a more general update on the MOVVE project and the deployment schedule? When do you expect to have it 100% implemented? Which would be the key aspects that you think are still lacking for you to move forward with MOVVE project, so that we can understand more how the stores will operate?

A - Peter Estermann {BIO 15380447 <GO>}

Okay. I'll turn the floor to Paulo, so that he can give you more color on this. What really matters is that you know that the project is implemented in many of our stores. It is quite mature in bringing consistent results and Paulo is going to bring you some more in a detail. This is a project, which in our view has passed the most complex phase. Now we are in the phase of capturing results.

A - Unidentified Speaker

This is Paulo, Guilherme. As we had planned, we ended the implementation of the model in a 100% of the stores by the end of December. We had six weeks of deployment. We implemented gradually in all of the stores and the result along the implementation of the

MOVVE project. We had an opportunity to speak about that, but it was shown to be very positive. We observed on an average a sales growth of about 5% when we compared the stores that deployed the model versus the control group. And this sales increase continue to be seen waves after wave.

And if we project that, annually it represent as Peter mentioned, a projection equivalent to opening 50 new stores in our installed base. It is important to highlight that in addition to increase in sales, we were able to improve productivity in our offerings and conversion in the sale of services and then offering more profitable payments means, we would also contribute to our bottom line. And you can see that in the results that we published.

As a consequence, and this is an important driver in our model. We had an improvement in our quality of service to customers and improvement in our sales in productivity. Could you mention this for some groups of salespeople who are underperforming, we could see about 20% improvement in their performance and this was quite significant. We understand that we are at a good stage. We just access compliance to the model at the beginning of the year and the results were very satisfactory. And obviously the stores perform differently in terms of quality and maturity in applying the model and this is our agenda as in '17. We want to bring everyone up to a higher level of excellence, raising the bar and capturing these good results in all of our stores. This is what we can tell you about the model at this point.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you. Thank you very much. You touched upon which I believe is important and that I read about in the release, i.e. to MOVVE project and training, you can divert customers to more profitable means of payments, we could see a rather good increase intact payment in cash and reduction in the use of third-party credit card. I understand that this has to do with your comments right?

And it's still not an ideal, it would be better to use the co-branded cards. We could see that you grew with co-branded cards business. And but most of the conversion from third-party credit card payments went to cash payments. I think that this has to do also with customers being more cautious in more credit offers, but looking forward, how can we expect an accelerated co-branded payment?

A - Unidentified Speaker

Well, we -- when we work with the team, we always look for the best payment conditions for customers and also the best profitability. But we also analyze the profitability of the transaction, the products margin, the value-added by services that are combined in that sale with the payment conditions that will provide us a best profitability. Sometimes we have cash payment, but with a good margin of negotiation in the product, so we've analyzed the combined margin for all the situations. But we do have a good perspective of payment conditions both for private label as well as the DCC. We have indicators with good performance and this will quickly show up in the results.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you very much.

Operator

We now close the Q&A session. I would like to turn the conference back to the company management for the final remarks.

A - Peter Estermann {BIO 15380447 <GO>}

Well, thank you all very much for participating in this call. This marks a new stage in the company, which is already consolidated in the online and offline businesses. Also, I would like to thank the whole team that is fully focused and aligned to this new moment in our company. We are extremely optimistic about this new platform that we start to work in an integrated manner and we already see very positive results. Thank you all very much.

Operator

This conference call on Via Varejo result is closed. The Investor Relations team is available to answer any other questions you may have. Thank you all for participating in this call and have a nice day.