

Q1 2018 Earnings Call

Company Participants

- Flavio Dias Fonseca da Silva, Online Business Unit Director
- Luis Felipe Bresaola, Investor Relations Manager
- Marcelo Lopes, Logistics & Supply Chain Officer
- Paulo Adriano Romulo Naliato, Chief Operating Officer
- Peter Paul Lourenço Estermann, Chief Executive Officer & Board Member

Other Participants

- Felipe Cassimiro, Analyst
- Guilherme Assis, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Luiz Guanais, Analyst
- Maria Paula Cantusio, Analyst
- Richard Cathcart, Analyst
- Thiago Macruz, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to Via Varejo's Conference Call to Discuss the First Quarter of 2018 Results. This event is being broadcast via webcast and can be accessed at www.viavarejo.com.br/investorrelations where you will find the respective presentation as well. The slide selection will be managed by you. There will be a replay facility for this call on the website after it is over.

We inform you that the company's press release about the company's result is also available at that IR website. This event is being recorded and all participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session when further instructions will be given.

Before proceeding, we would like to mention that forward-looking statements that might be made during this call in relation to Via Varejo's business perspective, operating and financial target, and projections are beliefs and assumptions of the company's management as well as information currently available. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions as they relate to future events, and therefore, they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry

conditions and other operating factors may also affect the future results of Via Varejo and may cause results to differ materially from those expressed in such forward-looking statements.

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

Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

Good afternoon, everybody, and thank you very much for participating in our call. Today with us, we have Flavio Dias, who, as of tomorrow, will be officially the CEO of Via Varejo; Paulo Naliato (00:02:16), our COO; and Vendramini (00:02:20), Commercial; Marcelo, Infrastructure and Logistics; (00:02:26) from People and Sustainability. Felipe Negrão is temporarily absent due to specialization course that he's taking abroad and he will be represented by Luis Bresaola, our IR.

Before we get into the results of the company, I would like to say that tomorrow, we will conclude the process of transition in the command of Via Varejo. I would like to thank the executive board and the whole team of Via Varejo for the unconditional support that I have always received and - to implement our strategy and also the results that we achieved in the spirit that we were working together. And I am confident and I am sure that under the leadership of Flavio, the company will continue in an accelerated and consistent fashion with the implementation of the digital transformation that we are undergoing right now and the commitment that the whole team with all the strategic projects will be even bigger.

Having said that, I would like to make a few remarks about the results of the first quarter of 2018 of Via Varejo. At the beginning of this year, we were able to deliver operating result that were very important, with a net revenue of BRL 6.6 billion and our same-store growth was 10.6% and GMV growth 7.3% increase.

The gross income of the company reached BRL 2.1 billion with 14.8% increase. Our gross margin expanded by 121 bps for 32.4% because of the continuity of our growth strategy in a sustainable fashion, mainly on the Online Business. In this quarter, we decided to participate with a higher sales volume in a typically promotional period. That is to say, generally, with a challenge of expanding our revenues with no impact on our profitability.

Our EBITDA, 24.1%, increased BRL 407 million with a margin of 6.1%. And I would like to mention that is the fifth quarter in a row in which we deliver expansion in our EBITDA margin. Our net income in the period was BRL 71 million.

Now, I would like to talk about our operating activity, and we finished the rollout of the Move 2.0 as - on schedule in March for our 178 stores, and the first results are very encouraging. And we expect a ramp-up of operating efficiency for the second half with the maturation of this model.

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Bloomberg Transcript

We are repositioning our brand with a high connection with the Casas Bahia audience or buyers, and this will grow even further this category that is so important for our company, the Brazilian furniture. And we opened seven new stores in this quarter, six Smart stores and one digital, and I believe that most of you have had the opportunity of seeing it. And we are on schedule to reach a minimum of 80 stores for 2018.

I would like to mention that in April, we opened our first kiosk in São Paulo City. This is a disruptive model that will allow Via Varejo to make great strides in higher population areas and test new regions with a lighter operation model.

Just to remind you, this model allows the clients to have access not only to the products that are shown there, but also access by means of a totem, All the inventory that is available with the company and besides, the client can carry out operations involving financing and credit operations. And finalizing in March, we implemented the fifth unit of the Hub stores, and the five first units are located in many different regions of the country. And this is also a very representative test.

We are right now testing the efficiency of this model, which is already delivering very encouraging results. We should reach 70 stores by the end of June, completing 220 by the second half of this year. So our expectation for the second half is to open an additional 150 stores operating in this model.

And lastly, our Via Unica or Only Path (sic) [Single Path] (00:08:08) project that we are doing with Accenture is working very well, and we have already started to see an improvement in our conversion of sales due to the segmented sending of offerings to our clients.

Now, I would like to give the floor to Luis Bresaola, who will be talking about results of the quarter.

Luis Felipe Bresaola {BIO 15381072 <GO>}

Good afternoon, everybody. I would like to start by slide number 4 where we talk about the sales performance in the brick-and-mortar stores. Same-store growth, 10.6%. And GMV Online, 7.3% increase. We are pleased with the figures because we were able to expand our sales in a seasonably more promotional period as Peter said. And according to the survey agencies, we grew market share in both marketplace, have an important segment for our platform with 27.5% of our total GMV.

On the next slide, I will talk about our EBITDA, BRL 407 million, growing by 24.1% year-on-year with a 6.1% margin. And I would like to mention that our EBITDA is growing for the fifth consecutive quarter. This expansion has 120 bps (sic) [121 bps] (00:09:33) in gross margin, 32.4% from the effort from the company to grow profitably, and also the leverage impacted by the increase in provisions with labor provisions and also the mix effect of the brick-and-mortar stores growing more than the Online stores.

On the next slide, we are talking about the financial results, 10 bps expansion and also our net income reaching BRL 71 million. And I would like to mention our income before tax before the net income. And having said that, EBT 71%, 77 bps. And lastly, we talked about our net cash with non-sale - receivables in line with last year.

And I close my remarks here and I give the floor to the operator to start the Q&A session.

Q&A

Operator

Now, we would like to open our question-and-answer session. Mr. Thiago Macruz from Itaú would like to ask a question.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon. I have a question about working capital. And in this quarter, we saw the same-store sales offset by net-net. And I would like to know the reason for that and what we could expect for the next few quarters.

And regarding sales, a very healthy sales result with an expansion in the commercial margin, but after a quarter, that had the same situation. So, do you believe that - your market share has been decreasing, so was it a choice on your part in order to focus more on profitability? Could you give us some more color about that?

A - Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

Thiago, this is Peter, and I'm going to answer your first question regarding working capital. In fact, we had some opportunities in this period in the first quarter considering that we have very important seasonable events that start in the second quarter. The first is Mother's Day, which is usually very strong in our stores. And the second event, important event is the World Cup. So, the inventory increase is totally linked to these two seasonal events and with the opportunity that we see in terms of increasing our sales during this period.

In order to talk about market share, we saw differently from what you said. Not only did we not have a reduction in market share, but also in the first quarter, we had an increase in market share according to the research institutes, mainly driven by the difference regarding the brick-and-mortar stores according to information of the GfK. So, market share expansion continues.

Q - Thiago Macruz {BIO 16404924 <GO>}

Excellent. Thank you very much.

Operator

Mr. Richard Cathcart from Bradesco BBI would like to ask a question.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon. I have two questions. In the first quarter, growth of e-commerce was quite slow. It was around 2% if I'm not mistaken, and I think it was because of the very competitive market during the first quarter. So, what is your expectation regarding the growth of this sector in the second quarter and the app that you mentioned in the release?

This is my second question. You said that you would be launching another app and I would like to know your expectations about this app and ask what is the percentage of e-commerce sales that you already have through the app.

A - Paulo Adriano Romulo Naliato {BIO 18379785 <GO>}

Thank you very much for the question. This is Paulo. Regarding the first quarter, as Peter said in the opening remarks, we try to have a sustainable growth. This was our aim growing with profitability in the two channels with market share gains, and we have been placing our bets on many initiatives that we are developing and really putting to work many of them, accelerating the next few quarters. And they should be helping us maximize our synergy and integration amongst the channels generating businesses and growth both of sales and share. No pressure from competitiveness.

And regarding the second quarter, it's very hard to say yet during this first month especially with two important seasonal events ahead of us, the Mother Day's and the World Cup. So, we cannot give a deadline, but it's very difficult to see how the competitive environment will behave in this current quarter.

Regarding the app, we are at full steam developing the new technology and the new structure, and that will give us more accessibility and performance. This is a very important channel for us. And there are a few things that we are estimating for the end of the second quarter, but we will be experimenting a very sensible advantage or at the beginning of the third quarter, this is what we expect to have.

So, we expect to make our app besides being much more efficient in terms of the shopping process itself, making it very important to - relationship to and also to provide information and services to our clients and also for the clients that are inside our stores.

That is to say, bring more information about our inventory, communication based on geolocation, the management of the installment of the credit line and augmented reality, expanded reality, and interaction with the products that are on the shelves of the stores, bringing added content, that is to say information videos, so that the client can make the purchasing decision inside the store, and this would be a very important center for relationship to improve the experience of the client whether he is outside the store or inside the store for a better shopping experience. We do not disclose the figures, but what I can tell you is that we have been increasing very fast. Overall, the number of hits to our e-commerce already represents 75% or 10-percentage point increase.

So, the progress of these channels, and I mean the accesses that come from the apps and by our mobile access in the stores, so it is top priority for us. We will be guiding our whole team to focus on mobility and our idea is very ambitious. And we expect to be able to present this at the end of the second quarter and beginning of the third, and everybody will benefit a lot from these improvements.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you very much.

Operator

Our next question comes from Credit Suisse.

Hi. Good afternoon, Peter and everyone. I would just like to take another look at the admin expenses for the quarter. I know that - I mean, in the release, I think you put everything together. But I just want to get a better understanding about what is in that administrative line because the numbers are above what we expected.

Hi. This is (00:19:29). In that G&A, more specifically, we classified some of the accounts in the first quarter of 2018, and most of it stemmed from the labor expenses we have because we had it broken down, and now everything is under G&A. That's why the impact is higher due to an allocation factor.

Now, year-on-year, what was the evolution of this line? What was under sales or admin?

There was a labor de-leveraging in the first quarter vis-à-vis the year before. The numbers were higher earlier this year, and this impacted our expense line. And, I mean, last year, it was lighter. We didn't have so many entries, and this year, we have more entries. There's a greater inflow. There are more labor suits. So, there are more people filing lawsuits. Well, we ended a lot of lawsuits earlier this year. So, that refers to payment.

Mr. Joseph Giordano from JPMorgan has the next question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon, everyone. Looking at the expense line, Peter talked about continuous operating leverage. I just want to understand a little bit more what happened in terms of provisions to cover labor suits. I just want to get a better understanding related to changes in the labor laws whether that has changed somehow and I know that the pressure must be large. And when should we expect to see a decrease in this amount of provisions and when should we start seeing a more normalized situation looking forward?

A - Luis Felipe Bresaola {BIO 15381072 <GO>}

Hi, Joseph. Here is Bresaola again. Referring to the labor suits, we saw slight reduction as of March, but there is a backlog, still very high. That's why we hope that this year, the

impact should be very much in keeping with what we have last year because of the backlog. But we're already noticing a slight drop starting back in March.

Q - Joseph Giordano {BIO 17751061 <GO>}

Could you tell us what would be a normalized level or what is recurring? I think today, it's 800 basis points in margin but in a more normal regime, where there are not too many dismissals. What would be a normal level that we could work with?

A - Operator

Joseph, we don't give any guidance about that. But this year, I think we will find ourselves in a situation very similar to that of last year. In 2016, we went through a restructuring process and this process is now impacting 2017 and 2018 and we know that the impact was more relevant in 2017 rather than in 2018.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Irma Sgarz from Goldman Sachs has the next question.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. I have two very quick questions about operating leverage that was not materialized. I know you made some comments regarding investments and expenses with labor losses. But I just want to understand the evolution of your expense line looking forward because I know that you are working with a certain dilution. And so, what would be the key drivers whether it's just a matter of sales, or what should we consider for the next coming quarters?

And the next question relates to e-commerce. I don't know whether you have a goal or an idea of where you would find the best breakeven. I think now it's slightly over 25% on Q3, but it's still growing at high rates. When do you think you would reach a more balanced level between the two?

A - Paulo Adriano Romulo Naliato {BIO 18379785 <GO>}

Irma, this is Paulo. Referring to expenses, we have a series of initiatives that we've developed in the past few quarters, moving hand in hand with our integration process. And as I said before, they will gain momentum in the next coming quarters, and this should generate sales growth. And together with that, we will have better gains and efficiency gains both on the brick-and-mortar stores and also online with new technologies, productivity gains coming from the team, and this should be reflected in our figures looking forward.

Now, regarding the participation of 1Q and 3Q (00:24:51), we don't give you any guidelines, but in fact, we don't have any goal. Our strategy is having a platform with a

good assortment that serves our customers the best possible way. And then, on each category basis, we will then define the best position for the company, but it's not a goal.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

Luiz Felipe Guanais from BTG Pactual has the next question.

Q - Luiz Guanais

Good afternoon. My question relates to cash flow. Yesterday, you announced the approval of an advance of up to BRL 400 million. I just want to get a better understanding about your free cash flow for the online channel. I know that in the first quarter, you have a relevant seasonal effect, but looking at the entire year, I would like you to share with us how do you expect to see these dynamics moving forward.

A - Luis Felipe Bresaola {BIO 15381072 <GO>}

This is Bresaola. We don't give any guidance for cash generation. What I can tell you about that BRL 400 million of Cnova, that it was an intercompany loan that we did only for cash effect for Cnova. In the consolidated, well, you don't see that intercompany loan, but we use that to pay the debt. That's why you see that BRL 400 million.

Q - Luiz Guanais

Okay. And then, just as a follow-up question, in relation to marketplace, could you please tell us a little bit about the strategy? Because I know that you are growing a lot in 3P, you're growing much faster. I just want to learn a little bit more about your fulfillment initiative and what you expect to see in the next coming quarters.

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

This is Flavio. We are getting prepared to significantly grow our fulfillment offering. We already have a new client. It's not a seller but it's a manufacturer that began hiring our services, and we are just concluding some last-minute adjustments to our system and also making adjustments to our internal processes to be able to offer this service in a larger scale, so as to encompass a larger number of sellers.

And the maturity of this system should occur throughout the second half of the second quarter. And in the second half of the year, we will probably be able to bring onboard a larger number of sellers. We already started our commercial approach and we hope that throughout 2019, we will be able to grow this number of sellers significantly and we will offer a larger range of services, offering Via Varejo's facility or the services to all sellers because we have good capillarity coming from our distribution centers because they are closer to the demand centers located in different geographies in the country. And also, in terms of our own stores that can serve as a support point to this logistics network. And this will be very beneficial to those who will benefit from the services.

It's not something simple to do. That's why it's not yet concluded. This is a design that requires great effort on the part of the company, but we understand that the value proposition that it brings into the market really offsets all the efforts that we are undertaking.

I think that this will be more visible in the second half of the year because we will have a larger number of sellers. And throughout 2019, this system should be more mature and more consolidated so as to bring more revenues to the company.

Q - Luiz Guanais

Thanks.

Operator

Mr. Guilherme Assis from Brasil Plural has the next question.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, everyone, and thank you for taking my question. I would like to hear more about the gross margin. I know that you already talked a lot about your dynamics, but I just want to highlight a few things.

You were saying that you are not letting go of your profitability just to - for the sake of growth, but we know that you're continuously gaining market share. And also, you said that in this first quarter, like in previous years, you were more aggressive commercially speaking. I just want to understand, with this gain in gross margin, whether this has an impact in the mix of products or mix of channels - I mean, your internal channels - and whether we should consider that this gain will be sustainable looking forward.

Looking towards the second quarter, you already said that you are well prepared to face the World Cup. I mean, there will be fierce competition from other companies, and companies are already starting promoting their TV sets. So giving this competitive scenario, I just want to know whether you will be able to maintain this same pace of growth in your margins.

And my other question relates to retrofitting of the stores. And correct me if I'm wrong, but I think that you started with five retrofitting and your goal was to reach 220. So, with these five stores, did you get already some feedback about how the stores are performing and how the retrofitting has helped you to boost your online sales, or whether you can share with us any results?

A - Marcelo Lopes {BIO 18911032 <GO>}

Hi. Guilherme, thank you for your question. This is Marcelo. I will start with the mini hub, okay. These five stores are pilot stores in five different regions of the country and they have different sizes. All these stores have different sizes, and this is just for the sake of evaluation.

We are now initiating the evaluation and we were able to notice that we were able to reduce the time to serve customers, and we can access the information through our logistics platform and also through our brick-and-mortar operation.

Just to give you an idea, in some far away areas, we were able to reduce delivery time by 80%. So chronometrics is increasing and this allowed us to expedite the opening of the other 70 stores. And we will be able to have a better - to reap the benefits by the end of the second half of the year and then we will move forward to 220 stores.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Just as a follow-up, we talked about reducing delivery time and that's something very important. But do you have any other major impact? Was there anything else that you noticed some - that pilot project and what else can you tell me about that?

A - Operator

Well, no. There were no surprises or no new things when we deploy the five stores. I mean, we were able to reduce time to market and also we had a significant reduction in cost of freight because we are reducing the gap between the DC and delivery. And I am also utilizing the inventory available in the region.

I mean, if I'm allowed to add to that answer, we are still running some trials. And so, it's too early to tell. We are still running things in March and we expect to pass other models, other ways of collecting freight. And this freight collection, I think we see possibilities of reducing the values further.

One of the stores, for instance, is in the State of Piauí and then we were able to reduce delivery time that used to be 12 to 14 days, and we are able now to deliver either on the same day or within two days. This is much more convenient to customers and the transportation distance is much shorter. Therefore, we have great possibilities in terms of freight collection.

And there is also the benefit of the sale. We weren't able to measure that yet because this is still very new. If - one thing is to offer a value proposition to deliver in 14 days and in two days, but we weren't able to measure that yet because it's too soon. But there is an expectation to increase sales.

What I can tell you is that we were able to promote a very significant reduction in delivery time. There was also a moderate reduction in the cost to serve. And we will also have gains in the flexion (00:34:44) of freight, but we don't know yet how this will evolve.

But we're very excited with the early results. We were able to expedite the expansion of these five Hub stores into 70 stores. And certainly, this project will be a very important leverage to our results, particularly Online in the next coming months.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thank you. Now about the gross margin.

A - Luis Felipe Bresaola {BIO 15381072 <GO>}

Guilherme, this is Bresaola. Now, as for gross margin, throughout the channels, we engage in partnerships with some other companies and we had some help from suppliers. We have an improvement of furniture mix so the segment continues to grow, and this has helped the company.

In 2017, there was an important ramp-up. We start now with Movve 2.0. This brought about some operating impact to the company also because of the partnerships.

Q - Guilherme Assis {BIO 16143141 <GO>}

Bresaola, if you could elaborate a bit more given the competitive environment that you see or have, namely the World Cup, do you think that you can still maintain this margin gain?

A - Luis Felipe Bresaola {BIO 15381072 <GO>}

Well, we don't speak about guidance for margins as I've said before. We are constantly looking to improve profitability and mix of products, service, and other initiatives that can help the company improve its performance.

A - Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

This is Peter, Guilherme. In fact, as I've said in my opening remarks, we are very well prepared in terms of our inventory, mix of products, and certainly this strategy also has our suppliers on our side. And this will certainly give us a more adequate competitive position. Therefore, I reiterate that we are well prepared.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Fine. Thank you, Peter. Thank you, Bresaola.

Operator

Gustavo Oliveira from UBS has the next question. (00:37:03-00:37:07) Felipe Cassimiro from HSBC has the (00:37:10-00:37:13)

Q - Felipe Cassimiro {BIO 20321618 <GO>}

Good afternoon, everyone. Now, referring to marketplace, I would like you to shed some light on the evolution on the next quarter and whether you could also give me an idea of the same-store sales in the first quarter.

And the second question is about the evolution. I know that you don't give any disclosure about the numbers, but I would just like to have a qualitative idea in terms of what is the direction that you may take throughout the year or whether you're giving different conditions to your sellers, or whether you're still keeping the status quo.

A - Operator

We did not understand your second point. You talked about the number of sellers, the trade grade, but I couldn't understand your third point. Could you repeat, please?

Q - Felipe Cassimiro {BIO 20321618 <GO>}

The sellers that have been in the platform for longer, how are they performing in the platform of Via Varejo?

A - Operator

I won't be able to help you much with the answers because this information is very strategic and we cannot share that with you.

In terms of the number of sellers, we made some - there have been some advances. Today, we have 3,300 sellers based on a number of 3,100 last year. We still have an important bias related to the quality of serving, and we are performing very strongly with our current partners even though we are still open to welcoming other good sellers. And we are working in our processes to facilitate the onboarding of new sellers and the management of the current sellers, making changes to our technological platform that facilitates the integration and management of sellers.

But by no means, we are removing our focus on quality. We've been reaping good results. We are able to grow sales at a good pace. At the same time, we are growing sales with quality. Therefore, we are betting on the assertiveness of the strategy. However, we are already doing - or we are already accelerating the integration speed. We hope that we will be able to expedite the onboarding of new sellers, but by no means, we do that in detriment of quality.

The sellers are very pleased with us and we've been doing some very good work with the AAA sellers or sellers from our A curve, and we understand that we still have opportunities to improve the performance with sellers in the B curve and C curve. In these two seller groups, we will be able to leverage our work further. Therefore, I see good value ahead.

Our strategy follows each player. Each player has a strategy that is very particular to them. We understand that by deploying fulfillment services and other financial services that will be put at the disposal of our sellers, then we understand that this added value will also resonate with our take rate because this will generate more value to sellers and in turn, we will be able to collect more, but it's still too soon to tell. We are very much convinced that we are moving in the right direction with our marketplace strategy. What I can tell you, Felipe, is just that.

Q - Felipe Cassimiro {BIO 20321618 <GO>}

Thank you.

Operator

Maria Cantusio from BB Investment would like to ask a question.

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

Good afternoon, everybody. Thank you for the question. I have a few questions and I would like to start by talking about sales by means of payments. We saw reduction in cash sales and an increase in the use of third-party costs. Could you please explain why do you think the quarter had this kind of dynamic in terms of payment? Does it have anything to do with the change in the commercial strategy that you put in place and the participation in more promotional event in the first quarter? Or do you believe that there is really a change in the behavior of consumers that are going back to buy in installments?

And in the first quarter, all the stores that you opened were in shopping centers. Could you talk about your plan for the future? Is this a trend that we will be seeing? Are you mapping the number of shopping centers where you would like to be and that were - you're not yet? And could you talk about the impact that we saw regarding income tax?

It comes from the fact that you are not being able to use the deferred tax from Cnova because there is no history of profits still. And are you expecting profits for this year so that you may use your deferred taxes?

A - Operator

Thank you. I will start by the taxes. Up to then, it is consolidated, but when income tax comes, you do not see the benefit of the deferred Cnova tax. And it has to do with the profitability of the unit and we expect that this figure will cover so that we may evolve our Online Business in terms of profitability.

What you see today is basically the deferred tax, and this is necessary for the company to disclose the net income for a certain period. And after that, then you can use these credits when you go back to profitability, and then you can use it. So, we expect for the profitability of this online operation to come back.

This is Paulo (00:44:31). About payment means, we do not see anything relevant in terms of change of behavior of our clients. In the first quarter, we already see the impact of a strategy to incentivize the sale of TV sets to the World Cup and of course, we encourage the purchase of higher ticket products and because of that, this has a certain impact on the figure, that is to say the payment and installment regarding the opening of stores.

We have freestanding stores and shopping center stores. We do have a planned design. But of course, we're not going to disclose our strategy. But our choice has nothing to do whether be in a shopping center or freestanding or brand.

We have to check the convenience in that micro market whether there, in that specific location, it would be best to have a street store or a shopping center store. But there is no preference. That is to say - answer your question. This is a strategy and this week, we opened street stores. So it's a very well-planned, very well-designed strategy.

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

Thank you for the answers.

Operator

Now, we close the question-and-answer session. We would like to give the floor back to the company for the closing remarks.

A - Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

Once again, I would like to reiterate that we're very confident with the continuity of the execution of our strategy. And we wish Flavio and the whole Via Varejo team a lot of success in this new moment of the company.

And now, I would like to give the floor to Flavio for his closing remarks.

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

First, I would like to take the opportunity. Thank you, Peter, for your kind words and above all, for everything that you did and that you transferred to us in these last two years. The whole executive team is fully knowledgeable of the big challenge that we have ahead of us. But such as you, we trust that we will continue to implement the projects that will place Via Varejo on another level and that will be the foundation of our growth from now on, and also for the implementation of our business model, the platform model.

Our trust in execution is very much based on the fact that our team, besides having participated intensively in the drafting of the strategy, has already shown a huge capacity to execute especially in the last couple of years. And I want to assure you, shareholders of Via Varejo, that our commitment and dedication are total to continue this work that we started with Peter.

And I would like to thank the board of directors for their vote of confidence and for my appointment to succeed Peter in this ambition, task. This is a great honor and a great responsibility.

Thank you very much for your attention, for your time, and I wish you all a very good afternoon.

Operator

Via Varejo's conference call is closed. The Investor Relations Department of Via Varejo will be available to answer any further questions that you might have. We thank you very much for participating and wish you a good afternoon. Thank you.

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