Q1 2016 Earnings Call

Company Participants

- Eugenio De Zagottis, IR & Corporate Planning VP
- Marcilio Pousada, CEO

Other Participants

- Guilherme Assis, Analyst
- Joseph Giordano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and thank you for waiting. Welcome to Raia Drogasil conference call to discuss its First Quarter of 2016 results. We inform you that all participants will only be able to listen to the conference during the Company's presentation. After the Company's remarks are over, there will be a Q&A period. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Raia Drogasil management and on information currently available to the Company. They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that 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 Raia Drogasil and could cause results to differ materially from those expressed in such forward-looking statements.

Today with us are Mr. Marcilio Pousada, CEO; Mr. Eugenio De Zagottis, Investor Relations and Corporate Planning Vice President; and Gabriel Rozenberg, IR and Corporate Planning Director.

Now, I'll turn the conference over to Mr. Marcilio Pousada. Sir, you may begin your conference.

Marcilio Pousada {BIO 16117399 <GO>}

Okay. Thank you. Good morning, everyone and welcome to presentation of First Quarter 2016 of Raia Drogasil. As Eugenio will present all the results and just before the Q&A, I would like to stress some items and talk with you about the (inaudible) results. Eugenio, please.

Eugenio De Zagottis {BIO 7193695 <GO>}

Okay. Hello everyone. Thanks for attending our first conference call. And I'd like to start saying that in spite of the very first comp days of the first Q 2015, we were able to deliver another outstanding quarter with significant EBITDA and net income growth. We ended the quarter with 1,274 stores by opening 39 stores in the First Quarter of the year. The gross revenues reached BRL2.6 billion in the quarter, 26.3% increase versus last year and we see a same-stores sales growth of 16%. It's important to mention also that over the last 12 months we have achieved BRL10 billion in revenues.

Our gross margins reached 28.7%, 0.2percentage point increase while the EBITDA reached BRL193 million, a slight margin contraction was 0.1percentage point. So the margin was 7.3% in the quarter. That's a very significant increase in absolute amount north of 25% versus last year. Adjusted net income BRL100.8 million, 3.8% margin. And an increase of 23.8% versus last year. And finally we had in the quarter negative free cash flow of BRL161 million. And negative -- sorry, negative free cash flow of BRL161 million and negative total cash flow of BRL157 million with the negative core (inaudible) seasonality of the quarter.

On page 4, let's talk about our expansion. So we reached 1,274 stores by the end of the quarter. But we opened in this quarter alone 39 stores and this is more than twice what we had opened last year in the same exact quarter. So we are starting the year in a pretty good fashion here. Looking over the last 12 months, we reached the record of 176 stores. So this is a very high number. We're still maintaining our guidance of 165 stores. As you remember, the idea was to reduce openings in December and better employ idle capacity to the other quarters and we're doing exactly that. There could be an upside week depending on how our prospection and openings go in the next quarter. But still the most probable number is 165.

And finally here in discussing the structure of our stock portfolio, in the quarter 32.8% of the stores were still in loan maturation. This is the lowest number over the last five quarters. However, when we (inaudible) the maturing stores, we have a much lower proportion of (inaudible) really mature stores and a much higher proportion of new young stores which are just beginning. So this portfolio, this equivalent is not fresher than what we have seen over the last previous quarters when we factored that effect.

On page 5, talking about the geographic presence, out of 1,271 stores 612 have been Raia, 659 either Drogasil or Farmasil. We'll reach 749 stores in the state of Sao Paulo and 70 stores in the northeast. Going forward I mean these are two very critical blocks, building blocks of our growth. But Sao Paulo is always our main area for expansion and the northeast will be the second most important chain of stores to be opened this year.

Talking about market shares, we gained or preserved share in every single region where we operate. So our national market share increased by 100 basis points reaching 10.7. So this is a record growth for Raia Drogasil (inaudible). In Sao Paulo, market share grew by 1.4percentage points to 22.3, southeast a slight growth of 0.3, flat numbers in the midwest.

Important also to remember that future (inaudible) acquisition in Goiania. In 2013, we haven't opened a single store in the market because our advantage is very high. So obviously we're losing share that it is possible to gain share without opening stores and this is exactly the significant share gains in other markets in the midwest. In the south, we reached 5.6, a 0.8percentage point increase. In the northeast, we reached 3.4, a 1.3percentage point increase.

Page 6, we posted in this quarter a very strong revenue growth north of 26% on a consolidated base. So this is an outstanding number. Breaking down by Company, Raia Drogasil grew north of 25% which is really unbelievable growth for a BRL10 billion Company and 4Bio grew a mesmerizing 86% versus last year. Here at Raia Drogasil bought 55% of 4Bio and as we stabilized the finances and restructure by credit, 4Bio has now been able to deliver still potential on the Company (inaudible).

Within retail, HPC was the main category in our sales mix in terms of growth in which we came 7.2%, an increase from 28.2% to 28.6%. So fairly big increase in the quarter. OTC remained flat and HPC diluted both generic and branded Rx.

On page 7, talking about same-store sales, our retail same-store sales totaled 16% while matured stores growth was up 12.2%. So these are really high number. And this is a number we achieved on the back of first a very strong (inaudible) performance. Second, we had a major sales mix due to the Zika virus prevention due to an early flu season that hit Sao Paulo and southern part of Brazil in March. So where it was normal and also with a price increase from March to April of 12%, our customers also decided to do forward buying.

So there is a strong buying situation in the quarter that also helped achieve these numbers. It's a number -- it's also important to mention that the leap year produced a positive effect of 0.8percentage point since we have an extra day of sales in the quarter and this is very meaningful for retail.

On page 8, we reached the gross margin of 28.7%, a 20 basis points increase versus last year and our cash cycle decreased by 0.8percentage points versus the First Quarter of last year. However, comparing to the Fourth Quarter of 2015, we recorded an increase in cash cycle around nine days. And the main factor here is the negative seasonality of the First Quarter. Every First Quarter is the worst cash cycle movement for the Company and the Fourth Quarter is the best working capital movement for the Company. So this is always a quarter of meaningful cash consumption.

Page 9, we reached -- our operating expenses reached 21.4% of revenues, a 20 basis points pressure. This 20 basis points pressure can be broken down in a 10 bps dilution in administrative expenses as a function of our scale gains and a 30 basis points pressure at the sales expense level. This very bps pressure can be also broken down in 30 bps of labor, 20 bps of electricity. And 20 bps of new stores and peer pressure (inaudible). So this is a pressure we anticipated of this year as we grow much faster. There is a higher token that our new stores have taken us. However, we reached 20 bps in all dilutions and 20 bps in 4Bio dilutions that mitigated those pressures.

In the end the most important factor here is that the less price increase we have had before April was of 6% at a time in which inflation was 8% and the inflation reached 10% in the quarter. So this gap between the 6% price increase and the 10% expense inflation is a huge gap. So there's no way we could have maintained expenses flat in a scenario like that.

What happened is that we had much less expectations for the quarter in the end of last year. But the outstanding sales performance helps tremendously in diluting or in preventing a bigger expense pressure and will allow us to deliver flattish margins and strongly grow in demand.

On page 10 our EBITDA reached BRL193 million, 7.3%, a slight margin decline versus last year. But the important number here is that EBITDA grew more than 25% in absolute terms. And this is what matters for us. So the growth hugely offset the slight margin pressure that we saw. It's also important to mention that if we just consider the stores opened till January. So the same-store base we had in December, we're talking about 1,235 stores. They reached BRL2.6 billion of gross revenues and BRL207.2 million of EBITDA fully attributing to the stores our administrative expenses and our full adjusting expenses.

So we would have an EBITDA margin of 7.8%. So this is an important number to illustrate the impact of the stores opened in the quarter or in the process of opening, with a 50 bps margin difference. High EBITDA yield was reached, BRL191 million EBITDA, a flat margin of 7.4% where 4Bio reached BRL1.8 million in EBITDA, a margin of 2.5%. The best margin comparison is not on EBITDA. But it can be EBIT because 4Bio is much more factor efficient, 4Bio almost doesn't have CapEx and has a much lower working capital investment than Raia Drogasil.

So EBITDA for 4Bio is almost the same. There's only a 10 bps difference here. It's important also to mention that 4Bio had a huge growth. But the main categories that drove that growth are lower margin categories, oncology and hepatitis C, in which we are serving -- or servicing health operators in a managed care environment which is actually identical to the US market. So the growth was amazing. But was concentrated on categories with lower EBITDA margins. Our adjusted net income reached BRL101 million in the quarter. Appendix margin decreased as well. But a 23.8% net income increase in absolute terms which is very -- it's a very good number for us.

On page 12, we experienced meaningful cash pressure in the quarter. Our free cash flow was a negative BRL161 million and our total cash flow was a negative BRL157 million. Results of some operations were much better than last year, BRL20 million higher.

However, we recorded BRL130 million more in working capital investments and BRL40 million more in CapEx. Regarding the working capital investments, what happened here is that first of all we're comparing First Quarter with Fourth Quarter. So it's the worst quarter with the best quarter.

So it's always a negative number and it was also negative last year. However, this year's number is much worse than last year because we have a significant cash cycle reduction over the last two years that reduced significantly our working capital needs. Now with our one-day cash cycle reductions or more normalized performance, the working capital investment is also normalized. So this is more typical of what you'll see coming forward.

Then finally here on page 13, we have generated year to date a total shareholder return of 47%. Those investors who brought shares as (inaudible) 2007 have realized 35.8% average annual value creation -- sorry 29.4% of since 2007 and for those who invested at Raia's IPOs in 2010 the average annual return has been around 36%. So it's a very meaningful value creation and we believe the best (inaudible).

So I'll pass now to my senior for his considerations and then we'll have Q&A. Thank you.

Marcilio Pousada {BIO 16117399 <GO>}

Okay. Thank you, Eugenio. We're very proud about all these results, okay. We know that the effect of the value engineers when we know how important for us to reach good, good we've reached by now.

As we view in slide 13 two examples of how we work is going to have (inaudible), okay. The first one is the Zika virus. We know that an opportunity that the customer degree with the prevention for the Zika virus in that time, okay? We talked with the suppliers, we talked with the storage houses. We talked all this with the customers, how to get the reach with the customers. And we never increased the price also, okay? We did a very, very strong performance in this region, 40% of the total share of the market. But only gradually we only reached for the customer needs.

How important it's for the customer's needs to reach in this category. That's the way here also. It is a new category for us and the promise is by now is the category when the people can find the item for -- to prevent the (inaudible), then it's okay. The other point that will help us what is the problem out of in the expansion plan. We opened 172 stores in year to date (inaudible) in the next 12 months. We opened 62 stores in the last-quarter 2015. And 39 starting this quarter. All these are record numbers.

We opened up stores in the -- only corners, very, very good corners with one good quality stores with people who add for the business. We know how important is the acquisition to the business. And the opening stores also in place. But the competition is very weak which help us to reach a very, very strong initial performance which help us in the business by now. And this can -- it still follows our guidance for 2016 and we are opening 195 stores in 2017. And with the increase (inaudible) or value for this year reach 155 stores also.

For 2016 sufficiently delivered way too -- across the bench for us. In mobile strategy is going to help us in the -- to reach all the expenses and reach all the -- and we have to concluded the gross margin also. It's important to know that this is the first price increase that -- above the inflation -- below the inflation since 2009. This is good for us. But now we don't know about the next season, okay? There are a lot of negatives for the future (inaudible) for example try to negotiate the rate of contracts, workers and labor (inaudible), all this help us (inaudible) in 2017. Our zeal is still the same zeal, a long-term zeal. We know we are (inaudible) is marking the future, okay. But you know very well for us we are now into served by our customers. We're looking for a vision and now not changing our strategies yes, because that are good to proceeding from there.

We now can go for the questions and deal with the generals. Thank you very much.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Joseph Giordano, JP Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

I have a question regarding the expansion plan. It seems that the new stores, they are performing quite well. But I would like to understand how are you seeing the retailers of those new stores because if I'm not wrong you have a minimum threshold of an IRR of 20% (inaudible). So I'd like to understand if those new stores, they are performing better or in line with expectations, I need you to kind of give some granularity per region so like the northeast ones are performing better than the ones that you opened in Sao Paulo for example, that'd be great.

A - Marcilio Pousada {BIO 16117399 <GO>}

I mean, the quality of the program has been remarkable. We have -- we're very happy with the stores we have opened in the last few years. I'm very happy with the stores we have opened year to date. I mean, I think we have a specific numbers to get. But we are consistently reaching the return targets we had established and so we remain very optimistic with the expansion. Another important thing is that 2014 and 2015 have been amazing vintages for us probably better than the previous vintages.

2016, it's too early to say because not only we have opened a small number of stores. But the stores are operated on a small number of weeks. But is looking very promising as well. So we're very happy. We think that there may be other retailers who do some things better than this. But we are confident the mobile in Brazil has the same kind of know-how and structure and track record for the end growth as the one we had. Remember, we're looking for corners, not main (inaudible) stores. We've had to open store with good quality, with good value for the customer.

We have not only opened stores, very, very good quality right now. We also have a very strong pipeline. So we are very close to concluding the prospection for this year and to start prospecting for next year. So we're truly on track to meet our guidance and depending on how we do next quarter, there could be a possibility of doing slightly more than that. And we'll see how it played out. But still the most probable number for the year is 165 stores.

Q - Joseph Giordano {BIO 17751061 <GO>}

On the returns side just to clarify a little bit, what has been the main drivers for those (inaudible) productivity is much higher than you actually anticipated or that you're getting like higher margins and you expected or it's like more like a blend of both?

A - Marcilio Pousada {BIO 16117399 <GO>}

I think the combination of things. Our gross margin has been increasing. So this helps a lot because with the same revenue level the returns are a lot which is a very, very important factor. Another important factor is that we have opened a lot of stores in markets in which we have a huge competitive edge versus a non-competitive like in the northeast. Those stores have tremendous returns profile. When you -- if you compare the growth until, let's say, 2011 or so, I mean, those were the years in which we were entering new markets and whenever you rank them in the new uncharted territory, it's always challenging, it's always tougher, it's always a return pressure.

So the initial stores in the new market have lower returns. They don't reach 20%. But now we are at a stage in which we are only open in existing market and even with expansion with the northeast, part of the -- what happens in existing market sees the competitive edge versus the local players (inaudible). And finally I think there is also a learning curve, I mean, we learn from our -- we look at our mistakes and yet we learn from them. We also learn from the good achievement that we've taken and try to reinforce (inaudible) decisions. Our methodology is constantly evolving. So I think our people are more and more used to operate over this kind of analytics and this kind of decision framework and so I think they are better and better. We are absolutely (inaudible).

Q - Joseph Giordano {BIO 17751061 <GO>}

I'm thinking about the rest of the year, the new prices should be like a huge booster to top line growth. So we shouldn't expect any major deceleration from the levels in first Q, am I assuming that correctly?

A - Marcilio Pousada {BIO 16117399 <GO>}

First Q is -- was very helped by this weaker peak and the earlier flu season. But as I said, I mean, with the 12% price increase, I think the trend should be very good. It's too early to tell where our revenues will land and this is really that the million dollar question for the year. Depending on where the revenue growth lands, I mean, different implications in terms of margins. So I mean, in the end the question is will we experience volume contractions? It's very possible. But I think the 12%, by decreased volumes go down 1%, 2%, 3%. So we don't know exactly where it will land. But I don't know if you know that it's already 25%, I mean, it's possible that this could happen. But I think certainly it's higher than 20%. So low 20%, it's mid-20%, something like that, we'll see.

Q - Joseph Giordano {BIO 17751061 <GO>}

Yes. Thank you.

Operator

Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

I think that we discussed a lot about the growth prospect and the margins. I'd like to understand in this context, how are you guys seeing the competition because like we know that some of the growth in Brazil, they're not like comfortable situation, I think on the contrary. But there are some others that have been still around with the like good balancing and also with the recent entry of private equities and so on. So how do you guys see these compared to not the ones that have been under distress. But the ones that have been around and continue competing with you and the ones that are emerging clearly from the northeast?

And also how are you guys seeing the M&A environment in Brazil for international players, for local players? Are you guys -- have you been approached by any players in order to acquire more assets maybe and would you guys consider anything like it in this environment? That's my question.

A - Eugenio De Zagottis {BIO 7193695 <GO>}

I mean, I think it's a competitive scenario. It varies a lot -- depends on who we're talking about and it's certainly there are lot of players who are leveraged and whoever is leveraged is in deep trouble because I mean interest rates have been higher than 20%, a huge cash draw for any retailer. So we have seen many retailers suffering in varying degrees. So we have a middle section here in Sao Paulo (inaudible) every store, we have another one in the midwest trying to enter into Chapter 11, we have other local players who also are very leveraged and very close to a situation like that.

But at the same time you have players like Sao Paolo who are very well capitalized, they don't have any major net debt, they operate also in -- company like that certainly not suffering from decline. And I think we have seen also (inaudible) is raising capital. So this is I think very good for them. But I mean, okay, you -- they -- obviously they open more stores than they were opening before. But when we recover all, I don't think that changes dramatically the picture for the margin.

So we are the number one chain in Brazil and the one growing the fastest. So we will comfortably increase our revenue base this year alone north of BRL2 billion. This is a lot of money. This is more than number 5 and 6 players (inaudible) and this is like if we were buying the number 5 player every year. But doing that organically with great returns, with a great profile, great security profile, much lower execution risk, much lower financial risk.

So going now to your next question and I'm putting the two questions together, I mean in a scenario like that, we should -- no need for M&A. I mean there are lot of assets being offered around, we are very disciplined, we look, we analyze, we discuss. I wouldn't say something is impossible. But I don't think it's likely. And even if something happens it could be most likely an asset transaction that has a much easier integration. So then it's only a matter of asset quality, price. And with an expectation that we needn't -- our real M&A requires integration. We have a huge agenda inside the Company for improving our execution, for delivering better service to our customer, for increasing productivity and we won't -- we don't want to get distracted by an acquisition.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Like for the market in general, Eugenio, have you seen or have you noticed any new activity on the M&A side that could change maybe or that could affect the competitive landscape for the industry?

A - Eugenio De Zagottis {BIO 7193695 <GO>}

I don't know if I understood your question. Could you repeat, Guilherme?

Q - Guilherme Assis {BIO 16143141 <GO>}

Sure. Have you seen any (inaudible) not only of operations being offered to you. But have you seen any moves or have you noticed any potential moves in the industry that maybe you want to be part of it. But that could change any potential competitive landscape for you guys or for the industry?

A - Eugenio De Zagottis {BIO 7193695 <GO>}

No. I mean --

Q - Guilherme Assis {BIO 16143141 <GO>}

And I think there's anything that could happen like is there anything on your radar that could happen that could affect the competitive landscape in Brazil?

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Okay. Well even in this environment, I mean, Brazil is drawing tremendous attention in this market from global players. So I think the two main global players along with (Mutteral) and (Sun CBS), I mean, they have all been looking to the market to get as an asset in the deal, normally with alliance (inaudible). But they have been going around the market for more than 10 years, they know the market in excruciating level of detail. So the interest is certainly there.

The thing is all the good assets are expenses. And the cheap assets they are bankrupt. So the entry has been in the case of (Globelinks) hasn't happened because of the CBS, the only bottling company which is more company. So I think the prices are making the entry difficult.

Another thing is that this is a global market. So I mean we expect them to remain Brazilian. I mean, there are many big companies and we look up to them very often. But -- when we try to learn from them. But this is a different market. This is not a global sector where you cannot -- they have very successful book events sourcing joint ventures, you cannot blame the generics (inaudible) unless you have huge regulatory bodies. So -- and the supply chain is fully local. But formats are local, the regulation is local, the brands are local.

So through the end I think if they buy top-notch assets I think they would do well in the market. If they buy a better asset just because they are so great outside in the US or in Europe or around the world doesn't mean they will have success here. We have a -- in this market a long list of new entrants who have one by one failed news (inaudible) could recall farther in 2000 I could recall our order competitor, you know who I'm talking about. So it's difficult to find new entrants story.

I think it's too late for someone brand organically, I mean, we want to be (inaudible). We don't want the needle. We should buy us more company and open 10, 20, 30, 50 stores a year, it's too late for that. So at some point I think they'll be here. And it will -- for us it's not much of a change because whoever they buy, they still operate, would be still competing with the same stores, they will be still competing with the same brands, still competing with the strong execution and very likely with the same manager. So whoever they buy. So I don't see that as a threat, I see that as something naturally happening over time. But that's not a threat for us. I think you repay.

The best local player has an edge over the other players. There we have -- we are more agile, we know better the market, we have our feet in the ground. So I think this is a big competitor that -- doesn't mean that the new entrants will necessarily fail like the ones I mentioned before. But I don't see it as a threat.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thanks Eugenio.

Operator

There appears to be no further questions. I will turn the conference back to Mr. Eugenio De Zagottis for his final remarks.

A - Eugenio De Zagottis {BIO 7193695 <GO>}

Well just before my final remarks, I'd like to stress our IR calendar on page 15. And also some business we have been doing. We launched on March 21st our ADR Level 1. So we don't think this is a silver bullet for the stock. But it's another step towards a better international presence, towards more visibility by the capital markets, towards making the lives of foreign investors easier, towards bringing new days of -- new pools of capital to our shares.

So this is a long-term project and we are excited to see how it goes. Then we're reporting earnings in the year, always we think the next month. So Second Quarter we report July

28, Third Quarter we report October 27. We have been the first drugstore chain of wholesaler to report the numbers and possibly the whole pharma industries I hope we have been the first among with the markets to report. And I think for us it's important and we want to keep doing like that.

Finally we have two major conferences scheduled outside of Brazil. On May 18 and 19, Marcilio and myself will be in New York for the Itau share process and September 12th to 14th, both of us will be in London for the Morgan Stanley Latin American Conference.

So just to summarize some of what I've been saying and how we move the Company forward, this was another excellent quarter. This is a quarter that back in the Fourth Quarter when we were thinking about the year, we saw the major challenge because we had a very low expense comp base that we knew we wouldn't be able to match because as I mentioned our last price increase was 6% while inflation was 8% and inflation in the quarter was 10%.

Obviously our strong execution in terms of revenues, both structural growth and taking advantage of some of the peaks you saw like Zika, like the earlier flu season, like the customers forward buying that I mentioned, this allows us to achieve the mentioned level of growth and we reached a historical record level, 36% of consolidated Company and this allowed us to mitigate the expense pressure. So we had a flat quarter in terms of margins. But with significant value absolute growth because of the top line.

Now, we are entering in a different stage of the year as the prices have increased already in April by 12%. First of all, we should generate a huge inflationary gain on inventories in the Second Quarter. So it's totally posting a record quarter in the Second Quarter. This is great. But obviously this is something we can only account this year.

We know that Second Quarter next year is slightly (inaudible) because the pricing is going to be much lower, then obviously we'll be unable to match what we did Second Quarter this year. So in the end what matters is not that much this forward buying game. In the end what matters is the fact that this price increase will allow us to dilute expenses through the year and to build out a low-entry cost base for 2017. We still need to see where revenues will stabilize, what happens on the volume side. So it's difficult now to prophesize what the year will be like. But regardless, I mean, of what happens, we will see new expense dilution and will be able to enter next year with a lower comp base than we inherited this year. And this should be very important for stability.

We have also -- we laid focus on productivity. We are starting a most similar deal. We are renegotiating rental contracts. It's too early in the game. But the initial signs have been great. It doesn't make a ton of difference this year. But we'll also share ground for rental dilution next year, we still don't know how big. But most likely seasonal kind of rental dilution next year. We are improving how we do our staffing, how we deploy people by stores to be more efficient. More efficient sometimes means less people, sometimes it means more people to deliver higher revenues. But having the ideal number of people per store, having that done in a more scientific way. So this is something we do.

We have been upgrading our sales platforms. There's a lot of things happening, we are already piloting a new version of our (inaudible) systems which brings new (inaudible) for us. We have been upgrading our telecom infrastructure. So our store operation is very highly dependent on data lines which has a lot of (inaudible) and has regional programs evolving on factors that we have to do the eligibility checks. So we are including the bandwidth of the stores and this is also very important.

So many things are happening. Certainly we're seeing a major margin increase this year, still average to be precise. But I think we should be at least around BRL8.5 million. I don't know if we can do more or not. We'll see in a couple of months depending on where our revenue lands. But the most important thing is we are already working for a strong 2017.

We know that next year these one-off factors of (inaudible) last year versus this year. But our aim is to generate productivity enough to maintain the margins. I don't know if that will be the case, frankly if the margin goes up or down a couple of bps that's not very important. What's important is sustained growth over the longer term and this we have been able to do.

So I'd like to thank you all for attending this call. I'd like to thank our shareholders who have been with us, not only in the good times. But also through more shaky times. So we appreciate your trust and we are happy to deliver what you expect from us. So thank you very much.

Operator

Thank you. Raia Drogasil's conference call is finished. Have a nice day.