Y 2015 Earnings Call

Company Participants

- Felipe Negrao, Financial Services Executive Officer and Chief Financial Officer
- Marcelo Rizzi de Oliveira, Investor Relations and Strategic Planning Officer
- Peter Estermann, Chief Executive Officer

Other Participants

- Alan Cardoso, Analyst
- Fabio Monteiro, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Irma Sgarz, Analyst
- Joseph Jordan, Analyst
- Nicole Inui, Analyst
- Thiago Macruz, Analyst

Presentation

Operator

Good morning, and thank you for waiting. Welcome to Via Varejo's conference call to discuss the results of the Fourth Quarter of 2015. This event is being broadcast simultaneously, and you may access it 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. We would like to inform you that the company's press release is also available at the Investor Relations website.

This event is being recorded and all participants will be in a listening only mode during the company's presentation. After Via Varejo's presentation, we will have a question-and-answer session, when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to mention that forward-looking statements that might be made during this call are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of Via Varejo's management, as well as information currently available to the company. Forward-looking statements are not guarantees of performance, they involve risks and uncertainties and assumptions, because they refer 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 affect the future performance of Via Varejo and may lead to results that differ materially from these forward-looking statements.

Now, we would like to turn the floor over to Mr. Marcelo Rizzi de Oliveira, Investor Relations Officer of the company.

Marcelo Rizzi de Oliveira {BIO 19111391 <GO>}

Good morning, everyone. Welcome to Via Varejo's conference call referring to the fourth quarter of 2015. The call will last one hour and we will have a presentation of the results, and afterwards we will be opening for questions.

We have Peter Estermann, CEO of the company; Felipe Negrao, CFO of the company. And I would like to give the floor to Peter for his opening remarks.

Peter Estermann {BIO 15380447 <GO>}

Good morning, everyone. Welcome to the fourth quarter of 2015 and the full year of 2015 earnings conference call. As Rizzi said, today in this call we have Felipe Negrao, our CFO and Executive Officer for Financial Services as well; and myself; Rizzi, our Strategy Officer and also Investor Relations Officer.

As you all know 2015 was a very tough year, especially for the furniture sector as well as home appliance and electronics. We work with a lot of discipline method and focus in order to carry out the necessary adjustments at the company and to continue with the implementation of the strategic projects which are fundamental to ensure our leadership position in the market and to further strengthen our competitive advantages.

The fourth quarter in spite of still being difficult was a period of a significant recovery for Via Varejo, during which we accelerated our initiatives as we had said during our last call. Just to rememorate, we adopted a posture of higher commercial competitiveness and this helped us consistently increase our level of sales when compared to the previous quarters. And this also allowed us to gain a major amount of market share in the last quarter.

We continue with our actions to further reduce our expenses and this allowed us to have a higher dilution of SG&A vis-a-vis the previous quarters. We have two important focuses; the reduction of the delivery time of merchandises to our clients, and also to reduce significantly the level of knockout, mainly for the products that represents a higher amount of sales for the company, all this regarding the supply chain. We continue with our efforts in logistics in integrated purchasing and also backoffice.

We delivered the much higher amount of strategic, especially in furniture and cellular 50%, higher than the estimate that we had presented at the end of 2014 during the Via Varejo Day.

Also, we took advantage of the third quarter -- of the last quarter in order to structure the strategic projects of 2016. As an example, I would like to mention the improvements in the operating efficiency, and level of conversion of our stores, and the review of offers and media efforts, and also I would like to talk a little bit more about our projects during our next call.

We close the year with a more adequate structure for the current economic situation and we believe we are ready not only to cross this more difficult period but also to have agility to be agile to respond very quickly in this phase of market recovery -- market. Our commercial strategy is very well defined. The cost structure that will allow us to maintain our level of competitiveness, that was the commitment that we mentioned to you in the last call.

Our cash position is differentiated in this sector in which we operate. And this makes us very comfortable right now in this moment of uncertainty. In 2016, we will be maintaining our sound capital structure, giving comfort and tranquility to our investors, our suppliers, our staffs, and our clients.

Now, we would like to talk about the highlights of the quarter, the main highlights for the year, and I would like to give the floor to Felipe Negrao, our CFO.

Felipe Negrao {BIO 19434019 <GO>}

Good morning, and thank you very much. I would like to start by page number two where we have the four main highlights for 4Q15. The first one is our market share gain in the total market. In the fourth quarter of 2015, we were able to get R$5.5 billion net sales, down from 14.7% and sales level recovery compared to the second quarter and the third quarter of 2015.

The second point, as Peter said, we continue to the -- of continuation of the cost structure adjustment with nominal reduction of SG&A and better expenses dilution vis-a-vis the second and the third quarter of 2015.

The third is the adjusted EBITDA margin, 3.7. And when we consider the adjusted EBITDA margin for the brick and mortar stores, excluding the equity income, it was 5.7%. And lastly, net cash position R$4.8 billion, maintaining our sound capital structure and financial protection in a less predictable macro environment.

On slide number three, we see the main achievements in 2015 by the company. The first one was the optimization of the cost structure, adjusting headcount, and closing unprofitable stores. Thereby, paving the way for a new competitiveness strategy for the company. The second is the implementation of 176 mobile, 121 renovations of furniture stores, and banner conversion in 81 stores. The third, implementation of Click & Collect with Via Varejo's inventory in all stores.

The fourth point was the improvement in financial services efficiency and the new partnership agreement for the issue of Casas Bahia cards. And lastly optimization of returns from marketing investments by contracting the 2016 soccer package from Rede Globo.

On slide number four, I would like to talk about sales and expansions, efficiency gains, and the reduction of expenses and increase in participation of accessory or ancillary revenues allowed us to be more competitive price wise. We gained market share. We improved an 8% [ph] evolution of net revenue when compared to the third quarter of 2015. We advanced quite a lot in the Crescer Mais project with banner conversion and with utilization of stores.

On slide number five, we have the better SG&A dilution and the together with our efforts to reduce SG&A and net sales evolution gave us an important recovery of expenses as a percentage of net revenues.

As of the second quarter of 2015, when revenues dropped more than 20% we had over 5 percentage point reduction in expenses when compared to 2014. And we were able to reduce to 2.1 percentage points in the fourth quarter of 2015 with a difficult comparison basis versus that for the fourth quarter of 2014.

On slide number six we present the evolution of the EBITDA margin. As you all know, the reduction of sales last year was very sudden and the agility of the company in terms of looking for efficiency gained by means of expenses reduction, be it by participation of ancillary revenues, assembly, delivery, and partnership with Bradesco et cetera allowed us to invest in competitiveness, maintaining more of this recovery to EBITDA at a satisfactory level given that conditions of the market. And despite of all the difficulties of the market and the higher dilution of SG&As and the reduction in sales, we were able to deliver an adjusted EBITDA margin of brick and mortar stores of 5.7%.

On slide seven, we show you the cash position of the company. We improved our cash and cash equivalents by 1.2 billion, as the best cash position because of a higher reduction in receivables and this allowed us to minimize the impact of 22.4% hike in the SELIC interest rate, sound net cash position, and financial protection in a less predictable macro environment.

On slide number eight, we show you the delinquency data. We made heavy investments in investments consultancy and people in the credit and collection areas of the company with a better analysis structure. We try to improve approval of our best clients and decreasing the higher risk client. Although with all the investment that we made the deterioration of delinquency was in line with the market.

On slide number nine, we show the evolution of net income. We had the net of equity income, you can see R$311 million, 1.6% net margin is satisfactory for our sector in the year with a very difficult macro situation.

I would like to give the floor back to Peter for his final remarks.

Peter Estermann {BIO 15380447 <GO>}

As you were able to see in Felipe's remark, in the last quarter of 2015, we saw an improvement in our level of revenues; but also very important, maintaining the profitability and cash generation. It's difficult to project figures for this sector and for our company given the macroeconomic uncertainties. And in spite of that, we expect to grow in line with the market in 2016 and we will continue with our plans to reduce expenses, so that we may offset new cost that already exist the higher tax burden and growing inflation rate.

And finally, I would like once again to reiterate our total commitment with the recovery of our rent -- revenues and improvement in operational efficiency. We will do more and more perfectly, and we will further improve the level of services to our clients. And I would like to highlight the fact that our team is very motivated and very committed to continue to deliver the results that we need to deliver.

Now, we would like to open for questions.

Questions And Answers

Operator

Now, we would like to open our question-and-answer session. And we would like to ask you to please ask all the questions at once, and waiting for the company's answers. (Operator Instructions) Our first question comes from Mr. Joseph Jordan from JPMorgan.

Q - Joseph Jordan {BIO 2327205 <GO>}

Good morning, everyone. Thank you for the question. I would like to understand what you see in terms of the environment and demand at the beginning of this year you are making very interesting investments as you said yourself. So we see results that were better in the last quarter. So looking at this difficult market that is shrinking, I would like to understand the competition vis-a-vis promotion, because I would like to see what -- I would like to know what you see on the part of competitors, because some are already desperate because of balance sheet issues?

And the second question in relation to sales is the issue of credit. We saw a higher delinquency, so I would like to know how this could impact your revenues? Thank you very much.

A - Peter Estermann {BIO 15380447 <GO>}

Thank you for your question. I would like to answer the first part of your question. We believe the market will continue to be difficult in 2016. On the other hand, we understand that the company is very well prepared to cope with the scenario. We will continue with our strategy of competitiveness, so that we may be aligned with the market and still maintain our profitability. Extra to this sector, I'll say that the year -- it will be difficult and as I said before the company is prepared to face this moment. We will continue with offers, rather aggressive ones. And when I say that the company is well prepared to face this moment, I mean that we will always be aggressive in sales, but we will always defend our profitability. And the path to achieve this is to define the level of aggressiveness, and this is directly related to the inflation rate, because we have to adjust the cost structure of the company based on that and work very hard on the sale of financial products and services, because this helps the company to position itself in a very competitive manner.

So now I would like to give the floor to Felipe to talk about the credit side of your question.

A - Felipe Negrao {BIO 19434019 <GO>}

Good morning. I would like to talk about the impact of CBC on revenues. You see the participation of credit operations in the total revenues. You saw the positions vis-a-vis last year and because of two things; independent on the area of credit to guarantee the quality of the credit that we have signed in that report in our portfolio and as a consequence the lower rate of approvals for credit.

And even with all the investments that we made in the past, we are able to keep a very good participation, because we are able to approve more good clients and not the bad clients, so we are increasing the approval of good clients and not the bad clients. And when we compare Via Varejo to other players in the market, you can see that we are very competitive and we are the only ones who have our own credit structure. So because of that we end up having a lower cost of the transaction, and this is the reason why we are able to be more efficient than the other competitors in the market.

Q - Joseph Jordan {BIO 2327205 <GO>}

Another question. You said that your intend to keep your price competitiveness. Are you going to make any additional investments to close the gap that you see in the market, maybe, so that we --

A - Peter Estermann {BIO 15380447 <GO>}

We have two projects that were implemented last year, which are the revitalization of furniture and the store in store mobile, and they worked very well, they gave a very good return to the company, and of course these two projects are in our radar screen, you know that in a difficult market situation, we should preserve cash, that is to say maintain our sound cash structure. But on the other hand, we have to pay attention to the investment opportunities, so these two projects continue on our radar screen and we will continue giving priority to these investments, of course, considering our position to have a more reduced CapEx for 2016.

Q - Joseph Jordan {BIO 2327205 <GO>}

Thank you.

Operator

Our next question comes from Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Good morning, everyone. I have two questions. One has to do with market share. I would like to understand the calculations that you make of market share. We took the IBGE data for your categories and there was a 14% drop in the fourth quarter, which is similar to Via Varejo's level including services. So this indicates a maintenance of market share. When you look at the year, these categories dropped between 9% and 10% vis-a-vis 15% of Via Varejo's revenue.

So why is there a loss of market share? And then the fourth quarter, a maintenance of the same, because we -- you have been insisting on this saying that you are gaining market share, so what kind of source? So how can we conciliate these figures? This is the first question.

And the second question has to do with the participation of services or ancillary revenues as a whole, 14% of revenues in the fourth quarter vis-a-vis 10% year-on-year? So how much have they helped your EBITDA margin or your gross margin maybe, so could you quantify this, please, for the quarter?

And I would like to know if there are more opportunities, because you said that you continue to focus on increasing the sale of financial services, so what is the potential? How much of the revenues or the EBITDA or the gross margin, this could represent over 2015 -- 2016? This is my second question.

A - Marcelo Rizzi de Oliveira {BIO 19111391 <GO>}

This is Marcelo speaking. With relation to market share we've received the data from the official source of the market, not only for retailers but for the industry, the whole industry. So this is the source that we use. And in our case, the audit, the figures for electronics appliances and the non-furnitures [ph], GFK does not measure that, so whiteline [ph] and technology products such as cellular phones.

And when we say that we increased share in the period, if you take the three months of the quarter -- of the fourth quarter comparing to the sales of the fourth quarter of 2014, you will see that we grew more than the market and even of the total market that includes Internet product where only we are talking about the brick and mortar stores, Internet, and supermarket.

Q - Franco Abelardo {BIO 17416219 <GO>}

So according to GFK, the drop in sales of the market was higher than yours. How much?

A - Marcelo Rizzi de Oliveira {BIO 19111391 <GO>}

It was higher than the IBGE, yes. Higher than the PMC.

Q - Franco Abelardo {BIO 17416219 <GO>}

What is the difference? Do you know -- maybe do you think that furniture could account for this difference or is there any different criteria? Are there different criteria for this measurement?

A - Peter Estermann {BIO 15380447 <GO>}

I only give my data to GFK. And you have to get into the detail of the IBGE survey, but I couldn't get into details very clear. Now regarding services, well, this is very simple, the maths are very simple considering that there is no cost that is to say. So this is our ancillary revenues, so it's increase in revenues and given the relevance of the services area for the company.

If you look at the product that we sell today at Via Varejo and at the current clients, mainly at the point of sale, there is some improvement that we can still make, some fine-tuning, and still capturing what we -- or tapping into what we did last year, but there are no major opportunities. Where we see that we can become more effective is in the penetration of services, new services that today we do not offer to our clients and the after-sales, not only at our own stores but after the product leaves our stores what we can add in terms of services be it by means of the call center or some other channel.

And then the other point that is very relevant is the multi-channel Quick & Collect and marketplace when the client goes to the store, to pick up the merchandise at that moment as the client is there at the brick and mortar store. We can do cross-sale and we can offer financial services for -- to this client.

Q - Franco Abelardo {BIO 17416219 <GO>}

And one last question about the operation of payment for supplies, almost 1 billion in the fourth quarter. In this renegotiation what kind of term was negotiated? And how is it accounted for as debt and the cost of 108% of CDI? Is it posted as the financial expense? Could you please describe this operation?

A - Felipe Negrao {BIO 19434019 <GO>}

This is an operation. When we look at the end of the year, we have stable sales, so we didn't have great sales visibility. And we have a sales concentration which is quite high because of the Black Friday sale and Christmas, and the Holiday season. And so commercially we negotiated some specific sales with a longer period, a longer payment term.

Why is this important? Well, because if sales don't materialize as expected we have more time to pay the suppliers. Suppliers on the other hand can bring forward the receivables via a bank. This has a price, this has a cost, but if they want to be prepaid they can asked to be prepaid and we paid for that expense and that is posted in the financial expenses. But we also have the financial revenues. We have a longer payment term. So the match between what we invest and what we pay is a very small gap.

Q - Franco Abelardo {BIO 17416219 <GO>}

So wouldn't this be a commercial operation? Shouldn't this be deducted from cost? Could you consider this as a financial operation, I just want to understand the accounting?

A - Felipe Negrao {BIO 19434019 <GO>}

If we allocated that -- we can't allocate this into the financial expenses category given the new CVM rule.

Operator

Our next question comes from Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning, everyone. Thank you for taking my question. I would like to exploit a better operating efficiency in all of the cost reductions that you have brought forward. We tried to maintain SG&A under control in an environment with a drop in sales, which is quite difficult. Looking at the numbers, we can see that in terms of selling expenses you were able to have a small reductions year-on-year, as a percentage of net sales this increased from 20% to 22%, but in the fourth quarter -- in a comparison of the fourth quarter and this year. So looking forward, if there is any carryover of this trend in 2016 what could we expect in the fact that you are again investing in sponsoring the Brazilian Soccer League, what's going to happen?

In SG&A, we'll continue to be strong given the revenue -- since the revenues dropped 15%, I want to understand whether there is still space to continue to invest like this, since revenues continue to drop in 2016? These are my questions. Thank you.

A - Felipe Negrao {BIO 19434019 <GO>}

Good morning, Guilherme. (inaudible) we have said we implemented last year will take some time to bring the following fact, so we can still expect a ramp-up of the initiatives in this quarter. Also we continue to pursue new opportunities to reduce our expenses and our selling expenses. It's important to say that we have selling expenses and also delinquencies that needs to be taken into account. It's play the role in the performance of expenses.

And as for the Soccer package, our goal is -- and we know that we can derive greater efficiency when we can optimize our marketing expenses and advertising. I will turn the floor to Peter that wants to add to my comment.

A - Peter Estermann {BIO 15380447 <GO>}

Guilherme, just want to stress on points mentioned before, and I think it is important, because we still have some operating efficiency gains to be captured. While possibly capturing these benefits this year deriving from initiatives implemented in the company in the past. However, we continue with the big focus to improve efficiency.

One of the important areas where we have well structured projects to capture greater efficiency is going in logistics. In logistics, as you know, -- while logistics account for an important cost for the company and we understand that we still have some opportunities to capture gains in logistics.

And when we look at operating efficiency in the stores we have still some initiatives to be captured. Just to give you an example. We have some good-version of efficiency among the stores and when you have thousand stores it is only normal to have captured efficiency and we are trying now to analyzing that the main causes for inefficiency.

And to figure out what initiatives can be implemented to recover underperforming stores? When I talk about underperformance, I'm not talking about its full underperformance. I'm not saying that they're contributing with a negative margin, they're just performing less than what we expect from them.

To give you an example, we have a team of experts' people who know how to implement differentiated performance. Like I said, when you have thousand stores, you have thousand store managers throughout Brazil. So now we put together a team of experts in management and a team of experts with an expertise in the category of products that we sell. This team is responsible for working with these stores that are performing less than what we expect from them.

With that, and we have gotten some results from that initiative. We understand that it is possible to recover the performance of these stores, to have lowest difference in sales conversion among stores. So we are very optimistic, we believe that we still have opportunities to bring about cost reductions in the company, improvement in efficiency, and particularly to bring about a higher level of service to our customers.

So my answer to you is, we will continue to focus on that, because service is extremely important, particularly from this adverse moment where we operate currently, we need to continue to be competitive and we need to continue to maintain the profitability of the company.

Q - Guilherme Assis {BIO 16143141 <GO>}

Great. A follow-up question. Your cash position in the end of 2015, you have 2.3 billion considering DCC, direct consumer credit, so I want to understand why are you carrying this cash in the company? I mean, I understand we had adverse macroeconomic conditions and this is always good to have a buffer to be able to weather the storm. But on the other hand, you have a controlling shareholder, the controlling shareholder always needs cash. So I wonder if your Board is considering distributing some dividends or if you're considering other strategies for your cash?

A - Felipe Negrao {BIO 19434019 <GO>}

We're considering the current economic visibility that we have the economic outlook for the next months and years. We continue to be strongly focused on maintaining cash and with sound financial position. This is very, very important for the investors, but also to our suppliers, to our staff. It's important that we show that we are financially solid.

So today, our main focus is to protect our cash and our profit. You've mentioned options, so perhaps M&A, but we are -- we want to preserve our cash, so M&As are not in our radar today.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thank you.

Operator

Our next question comes from Thiago Macruz with Itau BBA.

Q - Thiago Macruz {BIO 16404924 <GO>}

Hello, everyone. Good morning. I have two questions. One regarding sales performance. Do you see any discrepancy of results in the different regions of Brazil? Is it possible to share that with us? And my second question has to do with the mix. Have you seen any significant change in the mix? Can you say that smartphones and furniture are accelerating the market share? Perhaps, they are pushing your gross margins.

A - Peter Estermann {BIO 15380447 <GO>}

Thiago, this is Peter. Thank you for your question. Regarding the different regions of the country, the answer is, we do not have a significant discrepancy among the regions. Some categories behave slightly different in some regions, but overall there is no discrepancy among the regions.

When you talk about categories and sales mix, yes, smartphones have grown their share in our sales. As you know what is in store for mobile, we've decided to take on an important position in this category of products nationwide. And we have posted growth over growth in this category, which is an important category of products -- we have products for the evolution.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you. Perfect. Thank you for the answers.

Operator

Our next question comes from Mr. Fabio Monteiro with BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good morning, one and all. I would like to speak a little bit about 2016 and like to hear your take regarding market growth this year? And also specifically about the company, what would be your pricing strategies to be adopted along 2016? I understood that in this quarter you mentioned that you had a somewhat more aggressive strategy. So I want to hear your take on 2016? What you intend to do? And what you expect in terms of store closures and/or store conversions? Or have you done everything that you thought was necessary? Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Thank you for the question. This is Peter speaking. Regarding the market outlook, like I said in my opening remarks, expected difficult year, which means a reduction in growth. And some specialists in this sector expected double-digit reduction, which is a significant drop. But like I said, we understand that the company is very well positioned to deal with that difficult movement.

When you talk about a pricing strategy, we will continue to be competitive in our pricing strategy. This strategy obviously varies according to the movement of the market, but the company has made a clear decision that competitiveness is important and we will maintain an aggressive pricing strategy.

On the other hand, just like I said in my opening remarks, preserving the margin. So we have began to work internally, we have to adjust our cost to this new reality. For this we have to open new sources of revenue. And we have to show that we have the competitive advantage in products and in financial services, because it will help us maintain our competitiveness in the other categories. So this is just to answer your first question, we will continue to be competitive in the market maintaining our profitability.

As for store closure or conversions, we believe that for store conversions, we've reached a significant level. We carried out the store conversions that we expected. We do not see, we do not envision great conversions, movements in 2016. Perhaps, a one-time off event here and there. If necessary, of course, we'll do it. But we don't expect that.

As with closing stores, I'd like to stress and underscore what I said a little while ago, our priority is not to close stores, our priority is to recover those stores that have -- that are posting a performance below expected. And for that we have those experts' teams in specialized teams working with them and bringing good results. So we don't have a goal of closing stores now. After we work with all of our levers in all possibilities to improve performance and if store continues to underperform, then of course we'll close it.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Okay, great. Very clear. Thank you very much, Peter.

Operator

Our next question comes from Mr. Irma Sgarz with Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. I have two questions. I wanted to go back to DCC, (inaudible) to consumers. I'm just working at the snapshot at the end of the year, so I want to understand, when you close the balance sheet did you know how much money you would get from this direct consumer credit? Have you paid all your suppliers? Did you pay them cash or what's decided in after you close your balance sheet on December 31st? This is my first question.

My second question has to do with your credit policy at the stores. Could you elaborate on this performance and with the renewal of the agreement with Bradesco? What are the policies that they are implemented for co-branded cards at your stores? If you could give us some color on the size of the portfolio growth, that would be great? Or if not, could you let me know where I can get the information, because I can't find it in this release?

A - Felipe Negrao {BIO 19434019 <GO>}

Irma, good morning. Let me start talking about the suppliers. This is a transaction that we start deciding way, way before. We don't do it (inaudible). In October, we have to make a decision of how we will manage our working capital looking forward, and since sales in October, November also beginning, after January the company has to build some inventory, so as to deal with the Black Friday sale, the Holiday season, and also the sale of January, so we carry a high inventory at that time. And we didn't have a great visibility for a sale, we didn't know exactly what was going to happen. So, we had this commercial negotiation with our suppliers to get longer payment terms. We didn't want to impact our suppliers, so we offered them our credit line. It's a bank's credit facility but via Via Varejo, so as they want to get prepaid, so as not to have any impact on their working capital, then they can get prepaid by the bank, and this happened last year.

For this cost, we will refund this cost of prepayments to our suppliers. This is how we are dealing with our suppliers. As for our loan policy, our credit policy at the stores, in the past, before 2015, we've decided on our loans -- our credits based on policies and procedures, and decisions would be made at the store level, a good deal of the decisions were made at the stores.

They followed a policy and a procedure, everything was nice and good but decisions were decentralized. In 2015, we made investments in IT and one of the investments we made was to deploy the bulk [ph] platform. And today, we have a high level of automation. So in terms of -- so we can have automatic approval for excellent customers, for the best customers, and we have automatic refusal as well. So this kind of decision is made at a centralized level automatically for the best and the worst customers.

Now, of course, part of the customer -- we have to make decisions which is made by credit people. They are in charge of the decision making. A lot of that decision making has been centralized to have a credit department at Via Varejo, so the decision is not at the store but at the credit central at Via Varejo. And a small part of the loans will be decided at the store level, but always following policies and procedures.

As for these co-branded card from Bradesco, let me try to explain how Ponto Frio differs from Casas Bahia. I think about the concept, they are two different models. So with Itau, we have 14% and the credit portfolios from FICC and in this business we have gains and losses for this (inaudible) managed by Itau bank, 50% fee to FAC Itau and one part of it is Via Varejo.

With the Bradesco agreement, we don't have our share of the results of the credit card portfolio. The decision lies in the hands of Bradesco and they also carries the risk. We get a commission from Bradesco if we sell the co-branded card and if we maintain the card.

So we offer a card to our customers with a value proposition, so that they will use the card as their first option and so that we will continue to make that fee every year. So this is a transaction that is quite interesting to us, because we make a fee when we sell the cards, we don't carry the credit risk, but we also create some loyalty fee from our customers, because they have special conditions compared to this competition. And we also have some advantages compared to other cards in the market.

Q - Irma Sgarz {BIO 15190838 <GO>}

My question was also, whether the trend has changed? I wasn't asking about the contract, the agreements between Via Varejo and Bradesco, but I just wanted to know, in your relationship with the customers, perhaps you have noticed that Bradesco has adopted a somewhat more aggressive approach, because in the end of the year we saw some promotions with longer payment terms, particularly in Casas Bahia?

A - Felipe Negrao {BIO 19434019 <GO>}

Yes, you are correct. There are two important points there, actually three. First is the agreement that we had. We've learned a lot; things that we did right, things that we could improve, and that's why we were able to renegotiate the agreement. And just like you said, we are offering 14 installments non-bearing -- non-interest bearing installments. When we had the private-label card in the past, we couldn't do that, we had a limitation in the way we would operate. We would never get a 14 non-interest-bearing installments. And now all our card are up in time, because they're competitive than the regular credit cards. Today, that's not the case. It is the best credit card option at the store, they will always be, because they can have a longer payment term, yes, but my customers become much more loyal and I get the commissions, commercially it is an excellent option for Via Varejo and for our customers. And customer relate [ph] for Bradesco too, because we are very much devoted in taking this partnership forward.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you very much.

Operator

Our next question comes from Alan Cardoso with Banco Safra.

Q - Alan Cardoso {BIO 15933677 <GO>}

Good morning, and thank you. I have two questions. I want to re-conciliate two pieces of information that you've disclosed today. One is that, the market is expecting a double-digit reduction for the electronics and household appliances market in 2016. And also you've said you want to maintain Via Varejo's market share along the year. So you're expecting a double-digit sales revenue for 2016? Am I right in inferring that or you're capturing the fourth -- market share in the fourth quarter and we could expect a recovery in market share?

My second question is, what about the commercial density of the players for e-commerce and brick and mortar stores for the first month of 2016? And finally, cost of pressure to suppliers? Normally, in the beginning of a new year suppliers come with a new price list, did you see an increase in the suppliers' price list for 2016?

A - Peter Estermann {BIO 15380447 <GO>}

Thank you for the question, Alan. This is Peter. As for the market, indeed there is a forecast of a significant reduction for 2016. And like I said, our strategy is to be, at least, aligned with the market. We understand that we have an opportunity to gain market share. And we can have a significant place in this market.

The one thing is the forecast of a sales reduction for the whole sector. So, we have to at least follow the market, but hopefully gaining market share, and hopefully adopting strong competitive approach in the market. So I wouldn't say that this is directly correlated with an expectation of a reduction in revenue.

You also asked about the brick and mortar stores and e-commerce in the last quarter. As Rizzi mentioned, Via Varejo gained market share in the total market, which means we now have a very strong position in competitive terms in the total market in the last quarter. We expect to continue to enjoy that position and we intend to minimally maintain our market share in the total market for 2016.

Q - Alan Cardoso {BIO 15933677 <GO>}

Yes, thank you. And my final question was regarding a possible price increase in the price list from suppliers. Have you felt any price increase?

A - Felipe Negrao {BIO 19434019 <GO>}

Well, so far we haven't seen a price increase in the suppliers' price list. As you know we have a very strong and positive relationship with the Brazilian industry. And whenever we need to sit and discuss with the industry, we are prepared to negotiate with them and come to terms regarding what is best for us, for the industry, and for customers. So to date, we haven't felt any pressure regarding price increases.

Q - Alan Cardoso {BIO 15933677 <GO>}

That is great. Thank you very much.

Operator

Our next question comes from Nicole Inui with Bank of America.

Q - Nicole Inui {BIO 17757166 <GO>}

Good morning, everyone. Three quick questions. First, can you confirm the level of CapEx that we can expect for 2016? My second question, about the C-Nova, do you see problems? Do you share distribution centers with C-Nova? Did you feel any impact? And I believe that the problem was reverse logistics. So I just want to understand whether we can expect a problem in your DCs as well?

And my third question, I know it's too early, but perhaps you can give us some color regarding the first few months of the year? Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Nicole, thank you very much. This is Peter speaking. Regarding your first question about the CapEx; at this point, we cannot disclose a CapEx number. As I said, this is going to be a difficult year. Our main focus is to preserve our cash. On the other hand, we keep our ears and eyes open to opportunities to invest in projects that will bring us a quick returns.

Our strategy for this year is that every quarter we will look at the opportunities, we will analyze and discuss these opportunities internally, and approve what is really important to bring us some return on investment this year.

Your second question, the C-Nova distribution centers. We do not expect to have any impact whatsoever on Via Varejo, we understand that the problems that we identified at the C-Nova warehouses were exclusive to C-Nova operation. And why? Well, because we have processes and systems in place at Via Varejo, they're extremely mature and extremely consistent.

Another point is that, 50% of Via Varejo sales are delivered to stores and the products update at the store, 50% of deliveries come from our DCs and the company has full control over that operation. It is an operation controlled by Via Varejo and tracked by Via Varejo.

And the distribution centers where we operate together with C-Nova, and you know that we have few operations jointly with them, that was the first synergy wave that we had, because we wanted to operate, to learn to operate jointly and to have processes and systems aligned. For the operating control in of the whole logistics is in the hands of Via Varejo. So we don't carry any risk in that regard in the distribution centers that we operate jointly with C-Nova.

And just to end, I think you want to have some peace of mind and you asked about future problems, future possible problems, and we want to check with our internal auditing regarding our internal processes. We analyzed in-depth some control points which are very important and we did not identify any flaw, any lack of control or lacks of control that could generate an additional impact.

Now obviously, when they complete the auditing work at C-Nova, we will re-visit this topic and we will analyze our management and control structure. But our expectation is that we will not feel any impact to Via Varejo operation regarding this issue identified at C-Nova.

And with regards to -- to the first -- pressure in the first quarter, like I said, even with a more difficult macroeconomic scenario, we remain optimistic regarding the positioning of Via Varejo in this market. The month of January you probably know that this is a month of a big sale. That's where we have a strong comparison base with last year. And we are expecting to at least perform according to the market and if possible to gain market share. So our expectation is one-off revenue growth and a good expectation for the first quarter considering our strategy.

Q - Nicole Inui {BIO 17757166 <GO>}

Very clear. Thank you very much.

Operator

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

A - Marcelo Rizzi de Oliveira {BIO 19111391 <GO>}

Thank you very much for participating, and we will be available if you have any further doubts. Thank you very much.

Operator

Via Varejo's conference call is closed. The Investor Relations department will remain at your disposal to answer any questions that you might have. Thank you very much for participating in this call, and we wish you all a very good day. Thank you.