Q4 2015 Earnings Call

Company Participants

- Belmiro Gomes, CEO, Assai
- Christophe Hidalgo, CFO
- Daniela Sabbag, IRO
- Elisio Melo, Head, Pao de Acucar
- Flavio Dias, Cnova
- Laurent Cadillat, Extra
- Luis Moreno, CEO, Multivarejo
- Marcelo Bazzali, Proximity
- Marcos Samaha, COO, Multivarejo
- Peter Estermann, CEO, Via Varejo
- Ronaldo Iabrudi, CEO
- Unidentified Speaker, Unknown

Other Participants

- Fabio Monteiro, Analyst
- Franco Aberlardo, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Robert Ford, Analyst
- Thiago Macruz, Analyst

Presentation

Operator

(interpreted) Good morning. And thank you for waiting. Welcome to GPA's conference call to discuss the results of the Fourth Quarter of 2015. This event is being broadcast via webcast simultaneously and it can be accessed at www.gpari.com.br where you will find the respective presentation. The slide selection will be managed by you. The replay of this event will be available soon after it closes.

We would like to inform you that the press release about the Company's results is also available at the IR website. This event is being recorded. (Operator Instructions) Afterwards there will be a question-and-session when further instructions will be given. (Operator Instructions)

Before proceeding, I would like to 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 GPA's management and on information currently available to the Company. They are not guarantee of performance. They involve risks, uncertainties. And assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of GPA and could cause results to differ materially from those expressed in such forward-looking statements.

Now we would like to turn the conference over to Ms. Daniela Sabbag, Investor Relations Officer of the Company.

Daniela Sabbag {BIO 18861490 <GO>}

(interpreted) Good morning, everyone. Thank you for participating in our call to discuss the results of the Fourth Quarter of 2015 as well as our outlook for 2016. Today we have the presence of Mr. Ronaldo Iabrudi, CEO; Christophe Hidalgo, CFO; CEO and OO of Multivarejo Luis Moreno, (inaudible) besides all the heads of the business units with (Filipe) from Pao de Acucar; Marcelo Bazzali from Proximity; Laurent Cadillat from Extra; Belmiro Gomes, CEO of Assai; Peter Estermann, CEO of Via Varejo; and Flavio Dias of Cnova.

Now I would like to give the floor to Ronaldo, our CEO, for his opening remarks.

Ronaldo Iabrudi {BIO 5151863 <GO>}

(interpreted) Thank you, Daniela. Good morning, everyone and thank you for your interest and your participation. As we will have the opportunity to see during the presentation to be made by each business head, the year of 2015 was especially difficult for retail and above all for the non-food retail.

In this complex scenario, the Company worked with all these high inflation rate, increase in unemployment and decrease in purchasing power. So we continued to operate and we understand that in spite of all the difficulties that I have referred to in the market, the result in our view is quite satisfactory. And you will have the opportunity to get in more detail about that.

And I am comparing the result with benchmarks that we track, be it in Brazil, be it in Latin America. So the first message I would like to convey to you is that in spite of the complex scenario, we have a level of profitability that gives us the necessary comfort to continue in this path. So due to our strategy and due to the fact that we have different business models, some businesses delivered expressive growth rate.

And when I say this, I am thinking about Assai and others had a significant resilience as well. And I'm talking about Proximity, Pao and now I'm referring to Via Varejo electronics and home appliances where we didn't have the same level of resiliency and growth that we achieved for instance in Assai or even in our food business.

I think one important point and that you will be seeing during the presentation that I would like to highlight is that in spite of all the situations that we had, we saw a very difficult year in 2015 since 2014. And because of that, we made the necessary measures to adapt the Company and adjust the Company and make the Company be the size of the new market.

And also because of that, we worked on synergies, commercial synergies. And logistic synergy in the optimization of expenses and we believe that we did the necessary homework and that allowed and will continue to allow us to provide the level of service that is necessary to cater to our clients and also maintaining our growth strategy that you will see that in spite of all the difficulty that we faced we achieved an important growth with over 200 stores being opened during 2015.

In summary, all the measures taken besides having insured what for us we are calling a profitability that if we look at the working capital investments and debt line items in our view, we had a very positive year. But more important than that. And this is something that I have been repeating and talking about that with many investors, we work to transform GPA and each one of the businesses of GPA over 2015 into a better business and more well prepared to face the challenges that we will be facing in 2016.

So our focus is to guarantee these results in a sustainable fashion and I would like to highlight, as I said before, I would like to draw your attention to the debt situation of the Company. I understand that today we have a debt-EBITDA ratio or the level of indebtedness that gives us the necessary level of comfort to continue to carry out our investment plan over 2016 and also we achieved many advancement in terms of working capital and in our investment practices in the profitability of the Company overall. And you will have the opportunity to see this during Christophe's presentation and afterwards by each one of the business heads.

Now I would like to talk, of course not to go ahead of each one of the presentation that will be made. But I would like to mention very quickly each one of the businesses as such as we have been doing in the other -- in the previous conference calls and afterwards, each business head would get into detail starting with Cnova.

I believe that overall most of you have followed the presentation of the Company's results that were disclosed, published yesterday. And what I would like to reinforce here and I think it's very important, I would like to reiterate that we have a new structure in the Company with a new team led by Flavio. Flavio joined the Company two weeks ago and in spite of being rather young, he is very experienced in e-commerce in Brazil. And he came onboard in order to add his expertise to the Cnova team and prioritizing dealing with stock-outs and delivery times and very much focused on commitment with results with margin and with sales.

And in Multivarejo, we are working very strongly in actions to guarantee sales and the traffic of clients to the stores. And I would like to say a few words that -- about the reinforcements of the team in Multivarejo. I think you remember that one year and a half ago we created business units. This was a decision that we made at the time and we said that we would be looking for a COO or Vice President as we call them to be responsible for Multivarejo. And it's a great pleasure for us to we have Luis Moreno.

He has been with us for three weeks already and also we are bringing -- we have been talking with Marcos Samaha since September and we are bringing Marcos onboard as well in order to look after our whole back office, which are all the departments that deliver services to the operations areas of Multivarejo.

We understand that by doing that we will continue to focus very strongly on our client by means of RBUs. And we continue to focus very strongly on the delivery of services to the BUs so that in their turn they can deliver services to their clients with the team led by Marcos Samaha. Marcos with Moreno and Flavio formally now, welcome to the Company, welcome onboard. And we are pleased with your arrival to the Company. So besides the reinforcement to the team, we saw a major growth mainly from the profitability viewpoint in all the banners.

If we take the example of Pao that in spite of a very complex year such as 2015 Pau de Acucar achieved a margin that we consider as a benchmark in Brazil. And Proximity with a major growth as well has already achieved breakeven in the last quarter of 2015. So I would say that in Multivarejo, we are evolving rather positively.

People always ask questions about Hyper and as Luis Moreno has just joined us, I would like to make it very clear that we do not see the same evolution from the viewpoint of revenue growth that we see for instance in the other businesses, food business. But at Hyper we have a profitability margin that makes us comfortable enough to understand that we should continue with our strategy. And of course continue to focus in the improvement of this model. But with a profitability that brings us the necessary comfort.

At Assai, Belmiro will be getting into details and it is always a great joy for us to talk about the trajectory and the expansion that we have been seeing in Assai, be it from the viewpoint of sales, be it from the viewpoint of returns, or ROIC and/or portability, growth. And last week, by the way, we inaugurated a store already in 2016 in Rio de Janeiro. And he can get into details about that. But it was a rather successful opening such as is always the case when we open a new Assai store.

At Via Varejo, as I said at the beginning of my talk, Via Varejo did not deliver the same resilience as the other businesses of the Company and it closes the year. And I think it's important to mention this and make it very clear, Via Varejo closes the year with highest cash of its whole history. In spite of all the difficulty, Via Varejo was able to generate cash last year. And this cash level gave it the right condition to face all these difficulties that we saw in the market and will do so in the next few years.

The Company carried out an important adaptation. I believe that you remember that our Second Quarter and the Third Quarters, we lost market share during these two quarters and we did the test analysis -- elasticity test analysis and as of August-September. And I believe Peter will be talking to detail. So we saw this elasticity with a elasticity with the generation of cash margin. So the last quarter was less negative. But still with minus 15%.

But rather different from the minus 22%-23% that we saw in the second and the Third Quarters.

And the Company continue to work very determined and led by Peter and his team to continue to adapt and adjust the Company in intelligent fashion and adapt the size of the Company to the size of the market. And we focused on the three sales project that have been delivering important results, the mobile stores; the furniture stores, in the store-in-store concept; and the whole process of store conversion that is underway at the Company.

In my personal evaluation, the Company is going in a very good direction considering the macro scenario that we are living in Brazil and I would like to congratulate -- in spite of the result that we see, I would like to congratulate Peter and his team for the work they have been doing so far.

And just to finalize my remarks and then I would be giving the floor to each one of the business owners. And it's important to give you an update about the synergies with (inaudible). We are according to plan exactly and we have been holding meetings every 15 days and monthly. So far we have not changed our meeting schedule at all and our expectation is to achieve important gains mainly in purchases done jointly and textiles and cash and carry.

The work group has been working very effectively and we are sure that we will be achieving the objectives that we have already communicated to you when the deal was signed.

So I would like to give the floor to Christophe and afterwards each business head will be making a presentation about their own business unit. Thank you very much.

Christophe Hidalgo {BIO 17982648 <GO>}

(interpreted) Thank you, Ronaldo. Good morning, everyone. And we will start the presentation about the main financial indicators of the financial performance and the commercial performance of the Company.

So let's go to slide number 2 of the presentation. We see revenues BRL19.7 billion, BRL10.5 billion coming from food that grew in this quarter 6.7% and the remainder BRL9.2 billion comes from the non-food areas that dropped from 6.2% in the period mainly because of the drop in non-food consumption.

For the whole year the total net sales are BRL69.1 billion, 5.5% growth vis-a-vis the previous year. Getting into details of the sales performance, I would like to highlight the significant gain of market share that we achieved with Assai, the significant gain also gained by the Proximity format that already has over 300 units operating in Brazil.

And I would like to highlight the maintenance of the market share in this difficult market on the part of Pao de Acucar. And the recovery of sales of Via Varejo that Peter talked about yesterday during his call. And Via Varejo closes the year maintaining the market share of 2014 and this gives us a very strong recovery a trend that we see that continues to be confirming and accelerating in the last few weeks.

And I would also like to mention that focus on competitiveness and focus on client continue to be our priority. And we can see that the commitment in the long run continues in force and we opened 118 new stores focusing mainly on the more resilient format and the ones that give us a better return that is to say Assai, Pao and Proximity namely.

The Company strengthened the financial structure over the year with the deleveraging of BRL1.6 billion. And as a consequence it closes the year in a very de-leveraged situation with net cash of 1.1 time EBITDA.

On our slide number 2, we show you the quarter -- the consolidated quarter. In order to have a better basis for comparison, we show you the annual consolidation excluding Cnova. In the last quarter, we see that we had a EBITDA of BRL921 million and the controlling a BRL147 million. Annually ex-Nova EBITDA exceeded BRL3.8 billion, 6.8% margin and this level of margin confirmed the resilience of the food area and how solid our multi-format is in a period of strong turbulences as was 2015.

I would like to mention the gross margin 27% diluted mainly by the effects of the mix Assai among others. And also marginally diluted by the effect of the pressure on the margin by Hyper. Regarding SG&A, I would like to mention that the efficiency plans carried out over the year by the whole Group allowed us to limit the growth of SG&A at 4.4%, that is to say a significantly lower level than the inflation that we saw in the period. And in this concept, the control Company, BRL880 million, affected by the economic scenario as well as the restructuring cost that were brought about by the scenario.

Now, going to the next slide, we see the financial situation of the Group, a situation that is reinforced in 2015 and more concretely we see a deleveraging of BRL1.6 billion in the year, with a reduction of the gross debt slightly higher than BRL1.3 billion. And a cash reserve at the end of the year higher than BRL11 billion. And one important point in this kind of period is the debt maturity, which is higher than two years, that is to say over 180 days more than what we saw in the previous year as debt maturity.

Financial results representing 2.4% of the sales. And this level is representative of the trend, the normal trend and the result of the Fourth Quarter is impacted by the effects of higher receivables than in 2014 over the quarter, as well as some one-off credit that were posted in 2014. And I would like to mention that the normal trend or the normal level of financial result related to sales is more around 2.4%.

On the next slide, I will get into the main points of the third business before giving the floor to my colleague. In the economic context that we saw in 2015, a very tough one, the operating performance was very sound with an annual EBITDA of BRL2.5 billion or 6.7% margin.

If we look at Multivarejo, it's important to mention that the focus on competitiveness is maintained and operating with gross margin of 28.1% for the year. Discipline in operating expenses, we have already mentioned that before. And allowed us to limit growth and these expenses to 6.4%, significantly lower than inflation. And I would like to mention in the Fourth Quarter that the capture of all the effects or almost all the effects of the efficiency plan applied in 2015 allowed us to have expenses dropping by 3.6% nominally. As you can see in the release, it's an important reduction.

It's important to mention this. The reduction in operating expenses did not affect our expenses with sales or in other words, little effect on our stores. And when we look at the operational profitability, we can see the strength or the resilience of Pao de Acucar that maintained high margins, contributing to a high return to the Company and the format of higher return that we have. And I would like to mention as well that the Proximity performance has been according to our expectations in the Fourth Quarter reaching breakeven.

And finally, resilience in Multivarejo, by Extra that in spite of all the difficulties in the Hyper format was able to close the year with an EBITDA higher than 6% which continued to be a sound EBITDA in this format and the period of crisis at Assai, highlighting the food format, together with Pao de Acucar. Belmiro and his team were able to develop a very high pace of growth, a relevant gain of market share for the full year.

Belmiro was able to open 11 stores without affecting the EBITDA margin and this usually brings a dilution of the margin and in spite of that, the team was able to keep EBITDA margin at 4.2% concretely. This represents a nominal increase of over 40%.

Sales of Assai exceeded BRL11 billion. Priority for the future continues to be growing into new market and strengthening the footprint of already existing stores and this is very significant. It's also important to mention that this wish to grow very quickly is being auto-financed by Assai. Assai already has autonomy to sustain this strong growth.

And I would like to end these highlights about the food businesses and I will give the floor to Luis Moreno.

Luis Moreno {BIO 21181673 <GO>}

Good morning. (Technical difficulty) -- for retailing but I also see some similarities with the contest I found in Argentina back in 2014 and we were able to perform well under such circumstances. I'm actually very excited to join GPA, the leading retailer in Brazil. And I found a very enthusiastic team in Multivarejo, willing to win in this contest and focusing on fulfilling our customer expectations across our multiple banners and formats.

I'm also happy to have Marcos Samaha in our team as COO who just joined the Company. His experience in Brazilian retailing market will be a great complement for me, a great asset. And also for the Multivarejo team. Marcos, if you can please introduce yourself.

Marcos Samaha {BIO 19808820 <GO>}

(interpreted) Thank you very much Luis. Good morning, everyone. I am Marcos Samaha. I am very happy because since February 1st I have joined (inaudible) Group and I am responsible for logistics, supply, loss prevention, information technology, pricing, commercial intelligence and marketing. I worked in the food retail for 20 years and I have been a hypermarket operator and upon (inaudible) Group in the '90s. I have been in the Walmart for 15 years both in Brazil as well as in Central America and along my career, I have worked in different areas, operations, commercial marketing, M&A. And business acquired -- acquired business integration. And I was a CEO for five years in Central America and in Brazil.

I report to Luis Moreno. And I am working with the leaders of the business units in these first weeks. We have dedicated ourselves to better know the different talents in our areas, assessing synergy opportunities, alignment opportunities, focusing on competitiveness, also on the strength of our brands and our value propositions. And our customer satisfaction. And improving support areas, especially logistics and supply so that we can always provide the best support to our operations.

As I said, I am very happy to be in the Pao de Acucar Group. This is a Company that has strong talents in all areas, brands that are very relevant to our customers and I am extremely optimistic about our view that is aligned in terms of overcoming the expectations of our clients.

Now I'll turn the floor to Elisio, Head of Pao de Acucar.

Elisio Melo

(interpreted) Good morning, everyone, I am -- and Luis and Marcos, welcome. In 2015, the banner was in the same pace of the prior year and gained market share. We maintained a high level of profitability. We had control on operating expenses and despite of increase of electric energy, wages. And so on. This is positive even facing a difficult and challenging consumption and economic scenario.

And we did not have problems with the quality of service. Our internal area measures of social networks and internal channels and there is also a company that measures our service levels, not only for Pao De Acucar. But also for competition. We have positive results along the year. The major complaint of our customers were the points in the Mais program and the changes in the strategy of the program that were done at the second half of 2015 were the right ones because we've reached 68 of penetration of sales of vis-a-vis 40% in 2014, that is the loyalty to the program increased.

Now, most of the promotions are for the customers that are in the program. There is a store in (inaudible) Perugina, this was our fifth store of the year. We closed the set of stores of 170 units. That store is of the sixth generation and it has better CapEx optimization. We renovated 40 stores that added the other stores in 2014 correspond to 80% of our store base.

Our store of (inaudible) was totally renovated. And we had sales results that were higher than expected. We had a special launches in 2014 such as in coffee and other areas and increased the sales in the categories reinforcing the differentials of the brand.

For us, it is fundamental to work with people. We have trained 270 people for special positions. We also have a specialty employees to work in the butcher areas and we have a program that is called the Proud to Belong where we work with improvements launching of products and ideas. We have received over 12,000 suggestions along the year. We traced the best and we awarded people at the stores.

We are at the end of the reviewing the assortments, the clustering of stores and the programs. We also gave a special attention to fruits and vegetables. We would try to increase the launching of differentiated products.

And finally we have launched last year our new campaign for 2016 focusing on our experts, people that are trained. And they are especially focused on making our clients happy.

So now I would turn the word to the general merchandise area.

Marcelo Bazzali

(interpreted) Good morning, everyone. Thank you very much Elisio. Luis and Marcos welcome to our team. In 2015, Proximity format had a constant growth along the year in the Fourth Quarter. We had a growth of 45% in same-stores above inflation. We closed the year with a gross sales of almost BRL1 billion and 310 stores. And despite of the strong organic expansion, 73 new stores in 2015, we were able to reach the breakeven in the Fourth Quarter.

We did the follow-up store by store in that quarter development and we had productivity gain related to sales and volume per employee. We have a prioritization of models with higher return in 2015. We opened 27 stores and we had 19 conversions from many more (inaudible) the more profitable market. We kept on gaining market share in the last 12 months and concept of the same-stores and all stores, new (inaudible), we were able to avoid breakout or stock-out for the Minuto and Minimercado, the stores closed during that we did along 2015.

And the reviewing of the assortment of Minimercado brought about great results. Just to remind you, we have divided the stores in neighborhood, passage. And attraction and we worked in each of these models assessing assortment, competitiveness, stores. And promotions. And layout. And schedule.

For us, people are our main asset. We hired over 1,200 employees and we had a reduction of 10percentage points in our turnover. And we were able to have an increasing engagement, we have trained for 15 hours our employees that work in the perishable areas. And also we trained over 220 leaders in our succession program.

For 2016, our priorities are organic expansion and improvement of store mix focusing on higher return models, also to develop an improved frequency in convenience categories, bakery, refrigerated products, meats and produce. We want to review the assortment from Minuto constant search to gain logistics and efficiency in the stores, that is very important for this format, to keep on training and developing leaders for Minuto and Minimercado.

Now in March we will open the first school store for Minuto and at the end of the first half of the year the school for Minimercado focused on developing the culture of Proximity and also to have synergy of (inaudible) Group.

Thank you very much for your attention. I'll turn the floor to Laurent.

Laurent Cadillat

(interpreted) Good morning. As you already know we have a difficult scenario that changed the behavior of the Brazilian consumer. And now they are guided for more rational choices. Therefore there is a migration to other formats. And they are more careful in the consumption of durable goods. And that impacts us directly in the non-food categories.

Even in this challenging scenario, we had a special profitability level for Extra with an EBITDA margin that was higher than 6% for the whole year of 2015. The brand concluded 2015 with higher competitiveness in price, higher assortment in Sao Paulo and surrounding regions thanks to the reactivation of the category management practices.

Another strong focus of the banner was in the purchasing experience from our clients by the modernization of the Extra assets and improvement in services at the checkouts. For that improvement, we have operated in a strong revitalization of the brand and we launched the campaign Usted Merece un Extra, You Deserve an Extra. With different renovations here, we have 62 that were modernized, 35 hypermarkets and 27 supermarkets. That investment is allowing us to have higher growth compared to the non-renovated stores not only in sales in which we had an increase from 6percentage points to 7percentage points. But also in terms of flow and customer satisfaction.

Finally, in the last quarter of 2015, we are able to consolidate the flow of customers when compared to the Fourth Quarter of 2014 boosted by actions such as Black Friday that brought over 2.6 million consumers to the stores, 110% of -- higher than our target, overcoming our 2014 addition in terms of customer traffic. For 2016, our expectation is to overcome the changes in behavior with new initiatives and commercial techniques so that we can get ahead from the competition.

And we will base ourselves on statistics basis and we'll follow our competitive strategy by the pricing policy being more aggressive with a higher portfolio of first price products. This work is going to be reinforced with a strong promotional dynamics providing daily economic solution for the consumer needs so that we can increase the number of items and promotions. The brand will follow repositioning its place focusing on competitiveness to have better quality and the assortment and also developing regional promotions.

In 2016, we will also follow modernizing assets so that we can always improve the quality we provide to our services. Also we'll keep on aiming to gain efficiency and operational abilities so that we can improve our operations in terms of customer service.

Thank you. Now I will turn the floor to Belmiro from Assai.

Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) Good morning, everyone. As Ronaldo and Christophe have already said, the Fourth Quarter was another one of strong growth for Assai. It was our best quarter of the year. We had a strong acceleration of sales and results in the last quarter. The gross sales increased 27%. We were able to keep the growth profit despite of having strong number of openings there. We also were able to control strongly our expenses at the level of 10.5 and therefore our EBITDA had a development of 51%; (sic; see slide 9, "52.1%").

As a highlight here, we have a strong campaign October and November for our anniversary and we had 20 participating brand and that allowed the client, the customers that have been having economic problems, they saw campaigns here that allowed us to gain 2percentage points of share year on year in the period -- two extra periods of -- in terms of that stake, the growth in that period has to do with the anniversary campaign, also the maturation coming from 2014. And also we have more client -- customer traffic.

In this last quarter, we opened seven new units under the new model, seven stores totally new that we built from scratch. They have 60,000 square meters and 35 square meters of sales area. Those openings were concentrated in the southeast and the northeast, three new stores in Sao Paolo, two in Rio, two in Pernambuco, one in (Sierra), these are areas where Assai is known, the model is well accepted. And it has a maturity time that is a little bit faster than in other areas.

Talking about the end of the year, the whole year 2015, as Christophe has said, that was a very important year for Assai. We consolidate ourselves as the second wholesale player in Brazil. For net sales we had an increase of 26% vis-a-vis the prior year. We have sales equivalent to BRL2.3 billion. It's much higher gross sales than in 2014. This increases our share within GPA. Even with that strong stake, we are growing the last five years, 30% year on year in 2015. We were able to keep another year of strong growth.

This was a year where we were pressured upon especially because of electric energy costs and also an activity that impacted small companies in Brazil, especially the food service area and it has been strongly impacted. These are customers that have high share in our business. Therefore our model depends on that area. So we had to work in our cost control. Expenses close 10.5% on net sales and 9.4% on gross sales. And that for our business sales will allow us to keep on selling products at competitive prices that -- with that EBITDA goes up. And EBITDA is 40.2% and net income 42% vis-a-vis the prior year.

And as Christophe has mentioned, Assai for the first year is financing its own expansion project organic growth. And this allows us to face 2016 at a stronger position. We intend to keep on working with organic growth. We will open more stores in the first half of the year. We have opened a store in (inaudible) region. Those are big stores and that -- they have a lot of traffic. This favors that type segment. And also the increase of number in stores in areas where we do not have this model of business, we have always have a share in some areas. But now we are going into new areas and having also new customers for 2016. We will have different approaches.

In 2015, we tried to consolidate ourselves in areas we were already present at. In 2016, we'll open stores in new areas. We have projects to open stores in all regions in Brazil. Now in the first half of the year, it should go into the north regions of Brazil.

So we want to have a more footprint all over the country, we have -- want to have more penetration, distribution ability. This year should be also a challenging one especially for the organic expansion and the openings of those stores do have high costs. But they are aligned to the sound growth and we will increase our share and our contribution to GPA whether for the results or sales. Thank you.

Now I'll turn the floor to Peter from Via Varejo.

Peter Estermann {BIO 15380447 <GO>}

(interpreted) Good morning, everyone. As we have mentioned yesterday in our call and Ronaldo and Christophe mentioned today as well, 2015 was a very difficult year for Via Varejo and especially for the electronic and home appliances segment in Brazil.

And despite of the difficult period, the Fourth Quarter was of a recovery one for the Via Varejo. And as a highlight here I would like to reinforce the initiative -- the right initiative from the Company to become more competitive, to be aggressive in the promotions. And that has allowed us to have a significant gain of market share in the last quarter. We closed the year recovering the losses we had and we closed the year in the breakeven in terms of share.

And as Christophe has mentioned, we already show a positive trend also on that point of view here in the beginning of the year. Therefore we are able to keep our margin at adequate levels for this market reality. All of that was possible especially because of the initiatives taken by the Company in the second half of last year which were reinforced in the last quarter. But the optimization of our expenses and also the reduction of SG&A you see that we had a nominal reduction of 5.7% in the last quarter.

And also because higher penetration and greater stake in the Company's sales in terms of financial services that helps us to keep the competitiveness. Our sales, you see that was BRL5.4 billion. Our EBITDA margin was up 6.2% and we closed the year with net sales of BRL19.2 billion and margin of 6.9% for 2015. Once again I would like highlight that we'll keep on focusing on our competitiveness and also improving operating efficiencies. Those are the basis to keep the competitive level that we want.

And when I talk about operating efficiency, I want to stress a few important topics where we already have (inaudible) that are well-structured and advancing significantly which are the conversion rate improvement in our stores and also the reduction in the performance (inaudible) in the 1,000 stores that we have, we have a focused team working on recovering and improving performance of the stores. And of those stores that we understand that have a lower performance, there is another important front and this is a very important year for Via Varejo.

We want to leverage the multi-channel programs and also the sales of market price with Cnova, the whole brick and mortar stores. And structure other process are already there, rolled out. And that's the moment we should increase revenue with those multi-channels and also continuing investing as I said yesterday and despite of having lower CapEx. And that does not mean that the CapEx is low, it is significant. But it is lower than what we had last year and we keep on focusing on high return investments that will bring results in the short term.

And here I could talk about two projects that started last year. We had very good results from them. They are the projects and the furniture refurbishing in our stores that's very important at Via Varejo. And now the store to store mobile and those are bringing important results. Another special thing for this year is to keep our sound capital structure in the Company in a such difficult year as we believe it's going to be, preserving cash. And maintaining and preserving cash is a priority for the Company. But as I said doing the investments on what is needed.

And also important now is to keep a level of inventory in the Company that will allow us to have an adequate assortment and enough inventories so that we can keep on leveraging the Company's sales. Thank you very much.

Now I'll turn the floor to Flavio, Cnova's CEO.

Flavio Dias {BIO 18281132 <GO>}

(interpreted) Good morning, everyone. I am very pleased to be in the Group. I have a 17-year experience in the online business in Brazil and I have been -- I have worked in Phillips and I have also been head of e-commerce at other companies in Brazil such as Magazine Luiza and Walmart.

Now being Cnova CEO I understand we have our brands and in the synergies with the Group we have competitive advantages here. I have already started a restructuring process of the business. I have an intensive work plan to increase the number of visits, also to increase the conversion rate, to reduce costs, improve service levels for our clients.

I am very confident that with all these actions we'll be able to regain growth sales and improve meeting our operating results as well and service levels.

So now I'll turn the floor back to Christophe.

Christophe Hidalgo {BIO 17982648 <GO>}

(interpreted) Before going into the Q&A session let's talk about the last slide of the presentation because it summarizes our outlook, our main outlook for 2016, which will be an year of uncertainty and I believe that we have started the year very well prepared with a leaner structure and sound financials and a share of the market that has been strengthened.

So having said that, we intend to keep our market share in each one of the business unit and as we usually deliver nominal SG&A growth lower than inflation as usual and the outlook for profitability is the following; at Multivarejo we expect an EBITDA at the same level of 2015, from 7.5% to 8%. At Assai, we expect to maintain at least what we have delivered in 2015 and Via Varejo maintaining the same level that we delivered in 2015.

The CapEx will continue to be approached very carefully, be more demanding and with stricter criteria in the handling of each one of the project and we believe at this time of the year that our investment will be around BRL1.5 billion.

Our financial structure very much deleveraged and we expect to keep the level of deleveraging that we delivered in 2015.

Now I would like to give the floor to the operator to start our Q&A session.

Questions And Answers

Operator

(interpreted) Our Q&A session is open. Please ask all your questions at once waiting for the Company's answers. (Operator Instructions) Fabio Monteiro, BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

(interpreted) I would like to ask two questions, one about sales; Christophe said that he intends to keep the market share per business unit this year and I would like to understand how you see the scenario for 2016 for sales, mainly in the food category. So could you please talk about this?

And the other question is about gross margin. You said at the beginning of the call that this more aggressive pricing strategy and competitiveness will continue. However, in the Fourth Quarter, the gross margin dropped by 200 basis points and for the year 50 basis points. So by the end of the year, this strategy was more intense. So keeping everything constant which is not true. But anyway, I would like to know if in 2016 we could work with the drop in your margins or whether we could think about the gross margin stabilizing around 27% and here I'm talking with the food category included, okay? So these are my questions.

A - Flavio Dias {BIO 18281132 <GO>}

(interpreted) I will answer about the market share and maybe Christophe can talk about the margin afterwards. You referred specifically to the food category and what we have been seeing is that there is a major growth in market share by cash and carry. Assai systematically has been gaining market share and the cash and carry business in Brazil start to have a very important participation when compared to hypermarket.

So we continue to believe and such as was the case in the past, we continue to believe that we will continue to gain market share in Assai with investments, organic investments. There will be an even greater growth in the other food businesses mainly Proximity and Pao. Even if growth does not go hand in hand with inflation, based on the measurements that we received we continue to grow and we continue to gain market share.

And in the Hyper and the Extra businesses, Extra practically maintained and Hyper has a slight drop in market share. We understand that with all the work that we have been doing regarding remodeling of stores and with the plan that is being conceived, trying to bring more client traffic, customer traffic to the stores and also the changes in assortment and the schedule, we believe that there is a good possibility to recover the specific market share of Hypermarket.

In the food business as a whole, we believe that we will continue to see a major growth in our market share.

Q - Fabio Monteiro {BIO 3711690 <GO>}

(interpreted) Thank you, Ronaldo.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

(interpreted) And what about your second question Fabio?

A - Christophe Hidalgo {BIO 17982648 <GO>}

(interpreted) You have to separate the food business into different categories regarding the speed by which they grow. So the reality of Assai is very different from the reality of Multivarejo. Assai closed the year as Belmiro said very appropriately with 14.7% gross income. And this is representative of the mix of consumer -- final consumer, the legal entities. Many companies are clients of Assai and also the commercial performance and the expansion plans of Assai point to the fact that there are variations in the gross margin of Assai and that shouldn't be significant neither upwards nor downwards.

If there is a variation, it will be only marginal or in other words a margin that you can just bring back on track in the future. Regarding Multivarejo the situation is different. Margin -- gross margin 2015 28.1%, that is to say 50 bps lower than the previous year and we could consider that the situation of competitiveness with the reality of the market today is good or in other words the effect of the competition prices are at least partially reflected in the margins. You shouldn't expect a lot of dilution after that.

And on the other hand the trend that you can see for Pao, Pao operates with higher margins and it should offset potential endeavors to be made by -- at Hyper at the same remark made about Proximity, accelerated growth in Proximity should have an effect opposite to dilution on gross margin or 28.1% that we delivered in 2015 should represent the gross margin that we will have the possibility to deliver in the future periods as well.

Q - Fabio Monteiro {BIO 3711690 <GO>}

(interpreted) Thank you very much Christophe.

Operator

(interpreted) Joseph Giordano, J.P.Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

(interpreted) You talked about preserving your cash and sitting on it so to say. So I would like to know what you see in terms of opening of new stores, whether the focus will be more on Minimercado. And Assai, could you tell me about the growth in area per format?

And the second question has to be with non-provision for liabilities. In the Fourth Quarter you saw a hike of BRL2 billion and BRL4 billion for the whole year. So what about these liabilities could you explain and why are they growing so fast?

A - Unidentified Speaker

(interpreted) Cash generation, Giordano.

Q - Joseph Giordano {BIO 17751061 <GO>}

(interpreted) And what we see going forward since 2013?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

(interpreted) We have discussed in because unfortunately we have this situation in Brazil, moment of crisis. So you need to preserve your cash in order to get to the end of this cycle with all the possible comfort.

And our investment plan is practically the same as occurred last year. Christophe ended his presentation talking about the amount that will be invested and that will be close to what we spent in investments in 2015. Of course our concern is bigger, not only regarding the approval. But also the tracking of the expected returns on investments made.

So in Assai in the last 24 months we opened 20 stores and we have an important growth plan for this year for Assai. We expect to get into five or six new capitals that were not part of our footprint yet with this banner. We are always also giving top priority to Proximity mainly in the model that gives us a return that even as far as we are concerned was a little bit surprising. Minuto, the return on our investments is occurring at a much faster pace than indicated in the business line itself and we continue to believe that we have a major work still to be done in terms of remodeling of stores in general.

And we are analyzing what kind of remodeling should be carried out. And we also have some work underway that is not detailed yet, it is only estimated. And we believe that we have the opportunity of making further conversions according to what we did in 2014. In 2014, we made some conversions from super to Pao. Peter has been making conversions from Pontos Frio to Casa Bahia by year and we are considering the possibility of making other conversions very much based on the client's expectations in that region where the new store is located and which is the object of our analysis.

So we have cash as Christophe referred to. So we have the necessary degree of comfort to continue to be making our investments which is strategic. At Via Varejo, I believe Peter talked about that as well. We have a major return in terms of mobile, furniture conversion. And this will continue to be done. Of course part of that strategic which is maintenance and we feel very comfortable with the path that we are following with the cash level that we have to achieve the organic growth of the Company.

Regarding the liability that you referred to I think it will be best if I gave the floor to Christophe. But there is also the impact of monetary restatement and I think it would be best if Christophe could explain to you. Okay. So Christophe, could you please answer the question about the increasing liabilities?

A - Christophe Hidalgo {BIO 17982648 <GO>}

(interpreted) The increase in non-provision contingency are because mostly of tax issues. Basically this nominal increase corresponds as Ronaldo said to the effect of the SELIC interest rate. So these are contingencies that amount to 40% of the increase. The account for this restatement of the SELIC. And the remaining balance is related to new notices received in teams that are not ours about things that happened -- or legal issues in periods before 2013 and they are concentrated on four teams.

One, regarding ICMS for 2017, one RBJ, the income tax on corporations and CSLL and PIS COFINS. So the amount of all these issues are under or be analyzed by the administrative level. And the level of provisioning reflected in the balance sheet at the end of the year correspond to the evaluation made by external law firms and the review made by external auditors as well and the audit committee and our own internal evaluation. So this is my answer.

Q - Joseph Giordano {BIO 17751061 <GO>}

(interpreted) So the bulk of that came in the Fourth Quarter. So I believe that the adjustment based on the SELIC comes over the year. But the big hike was in the Fourth Quarter?

A - Christophe Hidalgo {BIO 17982648 <GO>}

(interpreted) I confirm to you that the annual growth 40% SELIC and 60% new notices of infringement and this doesn't mean that this division has been the same in each one of the quarters. So in other words coming from 2013 -- before 2013, they didn't come in a recurrent fashion, that is to say one by month or something like that. They were concentrated in the last period of the month -- of the year, that is to say the last quarter. And this explains the variation in the Fourth Quarter. So the explanation has to refer to the whole year. You -- this doesn't change the overall result that is to say the global or the overall reading.

Q - Joseph Giordano {BIO 17751061 <GO>}

(interpreted) Another question, have you seen an increase in the notices of infringement because of state reasons, such as happened to other companies?

A - Unidentified Speaker

(interpreted) No. They are not new and they have no relation with the situation of this state or the other. We see -- we are having technical discussions about these themes. We have a sound position and we do not link the situation to any move on the part of any state or any political reason whatsoever.

Operator

(interpreted) Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

(interpreted) I have two questions, one to Belmiro and another one to Luis Moreno and Marcos Samaha. The first question to Belmiro is about the expansion towards the northeast. Why the northeast, why not the south of the country? I'm asking that because based on our surveys, the north and the northeast are more competitive in cash and carry than the south of the country. So I would like to know why you have chosen this region.

And the second question, as the north and the northeast markets are more competitive that you're opening new units, how do you consolidate this guidance of the margin maintenances for Assai this year? Shouldn't you see a pressure on Assai margins because of that? This is the first question.

A - Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) Of course there is a pressure on margins in different state. But you already have -- but also you have the maturation or the payoff curve of the stores that were opened in 2013, 2014, 2015. And our objective is to offset that in order to keep the level of growth that we want. And per region, our view is that there is a very big opportunity right now in the north and the northeast.

In the operation of the southeast, we already have a very big number of stores. We already have 60 stores in the southeast of our total of 96. The cash and carry market has a higher facility in the north and the northeast, although you have a lower number of cash and carry stores in this region. There is an important component there, half or almost half of our clients are corporations and the difficulty in logistics in the south.

Of course you have a better condition to deliver door-to-door et cetera, much better than in the north where logistics is not so good and the northeast the same. So in our view in this year's expansion it's different from last year. It was concentrated where we already had our footprint. And now we are opening our footprint to extending to other regions. And we will have also the north of the country for 2016. Organic expansion is much better distributed and present in all the regions of Brazil.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

(interpreted) I think it's clear. So the effect of the payoff curve of the current stores could offset some pressure on your margins in the new territory, is this what you mean?

A - Belmiro Gomes {BIO 18107864 <GO>}

(interpreted) Well there is also an effort because as you grow, you have better conditions to dilute expenses and negotiate prices et cetera. So the format in which we grow depends on the specific construction. So you do have a team internally and you add more sales volume. So you end up diluting more this heavy structure that is focused on our expansion endeavors.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

(interpreted) The northeast has some regional chains. And when you take other regions, there is almost a dichotomy between you and the (inaudible). So in some regions you have been present for more time, for a longer time, not exactly with the model that you want maybe. But are you considering any acquisitions in northeast instead of growing organically?

A - Unidentified Speaker

(interpreted) Mainly in the regional players, you have a lot of cash and carry of new operations and they have been opening stores, cash and carry, which have a very different format from ours. They are far sometimes from the producing centers and we want to have our units always having their own inventories and the reason why we can accelerate, expand to these regions is that we do not depend on distribution centers because the unit itself carries its own inventory and you have to have the necessary buildings for that.

Some players open cash and carry unit and they are not the ideal format that as we consider the ideal format for these regions. So we have to prospect and buy the land and build these facilities. For instance in (Beija) near Petrolina, this is our third unit in area because it has a very strong supply area. It can really have a lot of inventories. So (inaudible) for instance, we will have -- it will be the biggest unit in terms of storage. So the logistics component is very strong when you establish that you're going to a region.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

(interpreted) You opened 11 stores in 2015. You do intend to open 11 in 2016?

A - Unidentified Speaker

(interpreted) Eleven. And we reconstructed (Canfrins) because there was that problem, that tragedy there. But this doesn't count as a new store. But it's a store that is totally different from the one that we had before, almost twice the size and for 2016 it should be at least 11 or more.

So we have been working very strongly. For one-two years we have been bringing the project for the approval of the stores. So there are important stores to be opened mainly in capitals -- at least in six new capitals where Assai is not present yet. There is a difficulty in delivering these markets. And we expect to have a very high average ticket, much higher than the current one.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

(interpreted) And one last question from me to Luis Moreno and Marcos Samaha. Congratulations for your positions in the Company and you have joined the Company less than a month ago. But in the initial diagnosis, you said that you want to gain competitiveness and improve the support areas, the performance of the support areas and the business areas. So do you have a preliminary idea in how soon you would be able to improve the operations and bringing higher revenues to the Company or even maybe you could talk about the food court result because there was a drop in the gross margin and we have not seen growth in top line yet.

So maybe the way to deliver margins or to recover competitiveness was not being done in the best possible way. I don't know whether you feel at ease to comment on that.

A - Luis Moreno {BIO 21181673 <GO>}

(interpreted) I will speak Spanish. I believe that Multivarejo has three different realities. The Pao de Acucar brand has already an excellent performance and continues to cater to the client. There are some little things to be adjusted. But fundamentally the performance is very sound and market share gains. In proximity, we also have a very good performance and a format that we believe is very valuable, which is the Minuto Pao de Acucar format that matures rather quickly.

In three-four months it gets to the breakeven point which is very difficult in the Proximity format and we have a very clear format to accelerate growth of -- and the Extra has a higher challenge ahead of it and there is a change in channels and market.

The wholesale channel had the preference of many clients today and this preference has to do of course with the price different and higher competitive prices. So we are reformulating for Extra our competitiveness criteria aligning with the expectations of savings on the part of a client and this is the reason why a client goes to the wholesale format of hypermarket and during -- we have already made a very important effort in term of promotion investment. But not always it is aligned or was aligned with our suppliers.

And we believe that part of the strategy is to align in a much better way the promotional efforts to the contribution that has to be made by our suppliers and reformulate the formula for time savings so that this can be more permanent and more or better understandable and with clear expectation of savings and a very clear communication internally as well, not only with the days of that offer. But so that our customers may find a way to get savings on a permanent basis.

And we believe that in this strategy we will start -- well, we will start to execute this strategy as of April.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

(interpreted) Very clear. Thank you very much.

Operator

(interpreted) Ladies and gentlemen, please only one question because we only have 20 minutes conference call. Franco Aberlardo, Morgan Stanley.

Q - Franco Aberlardo

(interpreted) My question has to do with the expectation market for 2016, especially food. The objective is to maintain or gain market share. So do you believe that the market will be growing as much as last year, that it grew less than inflation, or do you believe there will be a worsening in the market at Via Varejo? They said that the market expectation would be a double-digit drop expectation.

Along the same lines, a follow-up on a previous question. How much could we imagine that would be showed in food? Last year it was 3.6%. There were some closures and the 3.5% level for 2016, does it make sense? I believe Assai should have something similar to that.

And just adding to my question, the BRL1.5 billion CapEx for 2016 is it only for -- it's only for food and Via Varejo, it does not include Cnova because when we look at the consolidated figure the CapEx of 2015 was BRL2 billion including Cnova. So I would like to know if BRL1.5 billion is net of Cnova?

A - Unidentified Speaker

(interpreted) Franco, let me address the question about the market share and growth percentage for sales area. We believe that this year will be similar to 2015 where the market will grow less than inflation. And just to give a few examples we have banners that grew less than inflation, Pao, Proximity. And that we were able to gain market share.

We are looking at food here and that's the idea that we have. We believe that as a whole, if we consider growth for Assai, the growth that we're going to have for market share and the banners with higher resilience, we believe that we're going to be able to keep market share, I'm talking about same-stores and with the organic growth.

And now you talk about your expansion question here. We are going to drive those experiments and we are going to monitor them on every quarter. We have that projection of BRL1.5 billion. But priority is Assai with higher returns and quicker returns. Also Minuto quicker returns and considering the experience that we have, this is an investment that is forecasted to have for Via Varejo mobile, furniture. And also conversions and maintenance.

So this is the first outline for the year. Obviously according to what happens in terms of profitability, net sales. And the behavior for each one of the businesses, we might make more or less aggressive decisions depending on the other indicators. We are not providing guidance for percentages in terms of increasing of sales area because we are doing an important growth with Assai with a sales areas that is very large. And also an important growth with Proximity that do have a small sales area. These are 4,000 square meters-5,000 square meter stores vis-a-vis 200 square meter-400 square meter stores.

So we rather give you a figure for investment. And to work along the year depending on the performance of our economy. Of course we might have changes in one or another business. But because of what we have seen last year, we do not want to give you that type of percentage in terms of areas -- sales areas as a guidance now.

Operator

(interpreted) Thiago Macruz, Itau BBA.

Q - Thiago Macruz {BIO 16404924 <GO>}

(interpreted) I have only a question and a simple one, allowances for doubtful accounts. We have seen a quarter positive variation in the prior quarter. Did we have another change here and what happened?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

(interpreted) Thiago, we do not have this information and detail here right now. So we'll talk to you at another moment and we'll contact you later. Well Christophe will just comment on that.

A - Christophe Hidalgo {BIO 17982648 <GO>}

(interpreted) Yes, I just can give you an overview. The allowance for doubtful accounts, in an overview, we have not seen a higher deterioration in the last quarter compared to the prior quarters. And that's what we have to keep in mind. We have in general in the credit portfolios that we manage a selective deterioration of delinquency, around 15% of deterioration that we are able to control in terms of P&L impacts.

We are able to control those for two reasons. First because we anticipated that situation along 2015, in the beginning of 2015 we anticipated it and we worked on the approval -- credit approval criteria. So we have -- the approval rate has lowered obviously. But that allows also to limit the delinquency effect.

And additionally we reinforced our structures and also strategy for collection. Therefore the true effect of deterioration of that situation being well-mitigated or either neutralized according to each banners -- each of the banners in terms of the P&L.

Q - Thiago Macruz {BIO 16404924 <GO>}

(interpreted) Okay. Thank you very much.

Operator

(interpreted) Robert Ford, Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

(interpreted) I am really impressed with the improvement of the working capital, especially in terms of the suppliers, you have been able to raise it BRL3.2 billion. And I understand it in Via Varejo. But how are you working with these improvements and how are they impacting the products prices, the products cost actually?

A - Peter Estermann {BIO 15380447 <GO>}

(interpreted) Robert, this is Peter here. I will do a brief introduction and then Christophe will take over. About suppliers, we do have. And you know it, always concentrated at the end of the year and that is a very important period for retail. That's where we have the seasonal events which are Christmas and Black Friday and specifically for Via Varejo, we also have January sale.

And those are periods where we have higher sales concentration. Considering this very difficult market and also an uncertainty and a sales target that we might meet and having to have in this period of time very well-adjusted inventories and well supply the stores. We had an important situation so that we would extend payment terms along with suppliers so that we could be better protected. If sales did not happen, we would then have more time to pay our supplier.

The Company provided the suppliers a new possibility where they could anticipate payments with an approved creditline approved by the Company. So that operation allowed us to extend payment terms that provided a positive impact in the cash and not a huge impact on the supplier. And just to add, in the -- not only Via Varejo. But also talking about the Group in general, the two leverages, the extension for payment terms that happened in Via Varejo as you already mentioned. And also in Multivarejo. And that when we put it into perspective, the profitability of our supplier and the commercial margin. And then if we check the families and subfamilies, we do not see any variations that are significant, or the payment terms were extended in a balanced negotiation. But there was no significant or relevant impact in any of the category from the suppliers in terms of those payment terms just to give you a global idea along 2015, we were able to extend terms in 11 days which is very good.

Q - Robert Ford {BIO 1499021 <GO>}

(interpreted) Thank you very much Christophe and Peter.

Operator

(interpreted) Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

(interpreted) In the beginning of the call you had talked about the gross margin perspective for 2016 in the food retail. As I understand it, it's going to be 28%, 28%-something that you will be able to keep that margin. I would like to know more about it.

I know you -- I see that you have plans to improve offers of perishables both in the Extra format as well as in other formats. And an improvement in that offer or in that supply ends up causing a stock-out in the beginning. So I wonder if you are considering a potential impact for stock-out when you talk about the gross margin for 2016, or you don't think there is going to be that type of impact?

And along the same lines if there is no impact on the gross margin, I would like to know how do you think you improve perishables supply? What are the initiatives that you might taking logistically or in terms of the assortment or the process and the stores so that you could have significant improvement of that supply?

A - Unidentified Speaker

(interpreted) About perspective in terms of food margin, that is to maintain the leverage that we have delivered in 2015 of around 28%, that is based on several factors. First, the reality, the structure that we have today and this is one of the strongest points.

Second, we have plans in each category, in each banner, to maintain that level of margin. A specific plan. And I will not go into details now. But at it encompasses perishables is on its way. And about your question on the stock-out, this is a major concern. The Company is undergoing several adjustments in 2015. The productive capacity of each industry has not helping the commerce to keep good level of stock-out.

This is an important focus for us. And we are dedicating ourselves to it. And we understand that we concluded 2015 with a high level of stock-out. But historically it is lower than what was seen before since the beginning of the year and we are also strongly concentrated on that. In some situations that ends up taking us to increase the level of inventory which is always healthy.

But in general we do not understand that the scenario change and the impact of stock-outs should impact the margins especially because in terms of the stock-out we are working to improve them.

Q - Irma Sgarz {BIO 15190838 <GO>}

(interpreted) And special or real initiatives, what about the initiatives -- the real initiatives to improve perishables?

A - Elisio Melo

(interpreted) This is Elisio. Specifically about our premium format, perishables are important area with capital sales (representativeness). In 2015, we increased our services and I mentioned it, we rolled out the French (boulangerie). We have that in several stores. We also increased the sushi service in our stores. Also we have a meat area, butchery area, the meat assortment especially of red angles.

And what we need to do for 2016, as I mentioned in the beginning, is that we now are focused on this year on vegetables and foods department of Pao. We believe we can improve there especially the quality and display of that area. Also we have a pilot project in six stores. And we believe we'll have good results for that banner.

Our next question? I'm sorry. And now still on perishables, in addition to that information we have been working on two pilot projects. I mentioned that in the previous meeting. We have two pilots for perishables, one pilot that has to do with AV positioning, more premium and also we have a more popular perishables proposal.

Yes. We are going to the rollout of these two concepts and to stores, especially on fruits and vegetables and meats which are driver categories for traffic and frequency. These are concepts that do not need much CapEx. We work on assortment. We analyze the market. And the domestic market, the regional market. And we work to customize our commercial proposal also which at the socio-economic levels and the level of the store.

We are also going forward with a commercial proposal that has to do with our prices. I mentioned that we made appraisal first price is part of our strategy. To follow this strategy that we have rolled out in 2015 when I talk about perishables, the idea is to propose at each day a price that is matched to the markets and little by little to leave the commercial dynamic that is vertically concentrated. As an example on Wednesdays, that is very interesting for our business, we have an important volume in a weekday.

But our economic model now is pointing to have a commercial proposal to have promotions at different days of the week. So we are running two pilots in the Second Quarter of the year. We are going to rollout those pilots then.

Operator

(interpreted) So now the Q&A session is ended. We are going to turn the floor to Mr. Ronaldo for his final remarks.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

(interpreted) Once again thank you very much for your availability and for following our call. I would like to stress that we -- because of our indicators and our comparisons, we are very pleased about the results reached along 2015. Our team, our business owners, they have -- they're on plan as a strategy to be rolled out along 2016.

And we are confident especially because of the work that we have previously done along 2015. And I have mentioned several times, to adjust the Company to this new market price. So I expect and I'm fully convinced that in our next meeting we'll be able to show you the development of each one of these businesses as it has already been presented by each of the banner heads.

I also would like to say that we are reinforcing the team. We have two more people with huge retail experience that join us. And I mentioned before, they are Moreno and Marcos. And we also have a person -- a new member with major experience in e-commerce. And he's Flavio. Therefore we are more confident because we do have a complete team to help us face the major challenge that we have ahead.

We do have plans to face it and this is a challenge we will have for 2016. Once again thank you very much and have you all good work. Thank you.

Operator

(interpreted) The conference call for the earnings for this quarter from GPA is concluded. The IR Officer of the Group is available to address your further questions. Thank you very much for your participation. Have a nice day.