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Q4 2012 Earnings Call

Company Participants

- Alexandre Goncalves de Vasconcellos, Real Estate Business Officer
- Antonio Ramatis, Chief Executive Officer and Director
- Belmiro Gomes, Wholesale Business Officer
- Christophe Hidalgo, Chief Financial Officer of CBD
- Eneas Pestana, Chief Executive Officer, Grupo Pao de Acucar
- German Quiroga, Chief Executive Officer
- Unidentified Speaker
- Vitor Faga, Executive Director of Corporate Relations

Other Participants

- Richard Catheart, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for waiting. Welcome to Via Varejo conference call to discuss the results of the fourth quarter and full-year of 2012. This event is being broadcast via webcast and can be accessed at www.grupopaodeacucar.com.br/ir/gpa and www.viavarejo.com.br/ir with the respective presentation. The slide selection will be managed by you. There will be a replay facility for this call on the website soon after the conference is closed. We would like to inform you that the press release about the results of the company are also available at their Investor Relations website.

This event is being recorded and all participants will be in listen-only mode during the company's presentation. After today's remarks, there will be a question-and-answer session and further instructions will be given. (Operator Instructions)

Before proceeding we 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 belief and assumptions of GPA management and on information currently available to the company. They involve risks, uncertainties, and assumptions, because it relates to future events and therefore they depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GPA and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the call over to Mr. Vitor Faga, Executive Director of Corporate Relations of the company. Mr. Faga, you may proceed.

Vitor Faga {BIO 16103413 <GO>}

Good morning, everyone. We are starting our results conference call for the fourth quarter of 2012. And today with us we have Mr. Abilio Diniz, Chairman of the Board of GPA; Mr. Eneas Pestana, CEO of Grupo Pao de Acucar and many other officers of the company and its subsidiaries as well. Now I would like to give the floor to Abilio Diniz for his opening remarks.

Good morning, everyone. It is a great pleasure for me to open this conference call with you for the moment in which the company is presenting the closing of its figures for 2012 with the results that I believe you will all consider as being very good. We will talk here beginning the call that we do not remember another moment in which company gave 2% of the bottom line. We are not talking about EBITDA margin, we are talking about more than 2% on the bottom line.

I believe that the results of last year was excellent, the year wasn't easy at all, we had to fight to maintain our consumers, we had to fight to be better than the others, and we will. We achieved that otherwise the results wouldn't be good and we had to make our best efforts in order to achieve all these figures.

This is even more outstanding when you think that at the moment our position in the company was occurring, the company has some weariness between as among our main shareholders and the team was kept totally separate from these issues and nothing of what was occurring ever affected the others and they went after the market and they delivered the results and they operated the stores and they did what they had to do and they transferred merchandise and they did all the IT processes and logistics et cetera and the optimum results were reached. And as the Chairman of the Board, I can only say that I'm extremely pleased with the results achieved.

And another thing that gives me a big satisfaction is that after a lot of insistence at the Board of Directors during the whole year of 2012, I had this very vocal saying that we had to be more firm in terms of retail and we had to get the company in our hands and below the management of (inaudible). But, this should be done as this only happens in November. And we have -- we could say well, it only happens in November, but on the other hand, we must say well, we are happy that it has already happened and it's doing a great job in retail. And what we can visualize in the company today is something totally different from what we visualized before.

This company in our hands, looking for synergies and doing the homework and doing everything that has to be done, will certainly bring a lot of happiness to all of the investors and we will be bringing a lot of satisfaction to all satisfaction to all shareholders and everybody who have worked for the company. This is very auspicious and we could see retail, the company, as it should be, and the outlook for future cannot be better. 2013 will continue to be very good for Grupo Pao de Acucar. Quite a lot is said about the macroeconomic outlook and what business will look like and I believe consumers will continue with outlook and we will continue to be high. And if there is a problem with credit, I don't believe there will be a problem with credit, let's say, if it happens, it will be offset by the higher offering of jobs, all the infrastructure jobs underway are very important. They will bring about more jobs and will place more money in the country and more money in the hands of households.

I think the outlook is really excellent for a company that is prepared to face challenges, a company that is strong and sound and resilient, in a country that will continue to grow and is growing and we are very happy with the situation. Thank you very much for your attention.

Now, I'd like to give the floor to Eneas, who will give you more details about the operation and the results.

Eneas Pestana

Good morning, everyone. Thank you very much for participating in this call. It's a great pleasure for us. We have our team around this table. I'm not going to get into details. The team will be talking in detail about different operations and then we will leave time for questions and answers. I'll be very straightforward in my remarks, but trying to give you an overview of the year and of the business.

It was a year of major challenges, but also on the other hand, many opportunities and the team is very strong. We are very competent and very professional. We are foolproof. And they know how to work in an integrated fashion, a true team work, and maintain a focus on our clients, on our business. And I think this is a major competitive advantage that we have and that brings us better results and results like the one that we are presenting.

Still talking about the macro of our business, let's start with Assai, which has been doing an excellent job. 2011 was a tough year, a really tough year, and we have, I don't know how many challenges ahead of us and together it would be a challenge of setting up his team and the structure and do his homework and in all senses from the view point of stores, assortments, supply chain, strategic from the view point of stores, assortment, supply chain, strategic positioning and the target markets. This was done in 2011, it was concluded at the beginning of 2012, and 2012 was already a year where we reaped the fruits and we were able to focus on expansion, and this was done in a very competent fashion, creating a land bank that will help us accelerate -- further accelerate our expansion from now on in full pace.

Same store sales, that shows how healthy obviously it is, and we did our homework very well and all that with a significant increase in satisfaction regarding the net profits of Pao de Acucar Group. 2011 was not very good and the participation from Assai was 1% in net profit. If it's not up to close to 9% in 2012, the participation of the Assai Group. So you can see that this is enough evidence that Assai is on the right track, on the right second. And food retail, a very focused team, a very decent one, that has a capacity to maintain their severity and [ph] their focus on the business all the time.

This was a major stride this year with the conclusion of conversions to the minimarket format and the neighborhood models that completes our portfolio in terms of food retail took place here to our clients in all of their purchasing moments and looking for the revitalization of the non-food categories in hundreds of markets, and is being done in a very positive manner, both for sales and other categories in the hypermarkets, food retail has a total focus on clients today and clients tomorrow, for each of one the formats in order to use the strength of the portfolio in the different manners and the different regions in order to be able to offer an end-to-end access to our clients.

And I would like to highlight the expenses control that was done very competently guarantee the margins of food retail at Viavarejo, at Ramatis, (inaudible) on board in a very motivating manner and this is the way how much it always works in an integrated fashion and with total focus on what he's doing.

And there is an important expansion that has already been carried out, especially the growth in the Northeast and the reduction in financial expenses also done since the beginning of the year Rafael, Claudia, Jorge Osorio, Roberto did a great job in payment and they were able to bring down the non-interest bearing plan and strengthening our installments, operations and more specializing the financial management of that business. E-commerce, this segment continues to move forward in Brazil with all the players thinking the same which is gaining market share and profitability, of course.

But we have a strong team, a team that works in a very agile fashion and it is a very good platform and we will be able to raise the bar. In service level, I can say that we have the best service level in the whole segment and this is totally recognized and this was done by a very hard job in the logistics and achieving growth with no negative results involved. There is a division that this year we are starting at a very well structured manner with a review of the team and the processes which is our real estate decision. Our real estate division is led by Alexandre Vasconcelos.

He is a very competent guy. He has a holistic view. He sets up the team in and he did all the process review and we already have projects that have the great contribution to our bottom line. And from now on we have also opportunities to create value by means of our real estate assets. And of course always together plenty of talent with retail. Close to conclude my remarks talking about our people. Our people are great. They have a lot of experience. They have a lot of motivation and special focus on each one of our businesses.

It was a great pleasure for us to see the increased level of engagement by the end of 2012. That was really outstanding. And we invested quite a lot in training and resulted in an internal work with training of our people in a situation of full employment that could have been a bottleneck or limitation to our growth shortage of labors especially skilled labors.

And we are preparing ourselves to do this internally, we have made a great stride in this direction. We already have training our professionals in a significant number in 2012 and it will even be higher in 2013 at strong management with autonomy, with accountability and meritocracy. This is the way we work and this is the way we will continue to work. We closed the year with the sound capital structure. We reduced our indebtedness, we increased our liquidity with a focused financial management. And Christophe knows retail and known Brazil so he came on board with a lot of knowledge and efficiency ratio and a good reduction of inventory, reduction of the non-interest bearing installments and working with all the other business areas and guarantee the refinancing lines for the company.

Infrastructure, I really not mentioned because the company is always willing to have a growth and expansion, organic expansion plan has to invest in infrastructure, and we invested quite a lot of money in IT and logistics to prepare the company and to keep it prepared for a strong performance, but always capturing into synergies and efficiencies among different businesses.

And we weren't able to achieve a solid result with solid margins with all these efforts and with great growth opportunities, and investments in expansion, we had 103 new stores being opened, 71 food and 32 non-food.

2013 in my view just to say a few words about that. What can we expect for 2013. We can expect efficiency and results. We will continue to maintain a total focus, which is a major competitive advantage, being very close to our clients and making surveys all the time and paying attention to our clients and focus on our business we are still respecting the cultures and the specifics of these favorite guaranteed convergence to economical, which is prepared with the portfolio to fight in this market, to (inaudible) the market which becomes more and more competitive with the potential management and it is very important for me to say that we must have agility, this is retail. So retail is carried out by means of consistent processes, with autonomy, with accountability control and meritocracy.

So this is the work of order, this is how we operate, business agility in our decision-making process and guarantees execution. It's here today, everyday and very much strengthened this year so that we may really be aggressive based on competitiveness, growing our sales, gaining market share and growing the inflow of clients in our stores, with sustainability in our retail equation, always based on efficiency gains, so that we can grow but at the same time maintain our margins.

You may also expect an aggressive organic growth. We will have at least 150 new stores opened in 2013 or 160,000 square meters in 2013. Our focus, I have already mentioned this quite a lot and I reinforce that priority to the Northeast and the Midwest. And I think this is going to be the year in which we will be advancing and consolidating our operations of multi-channel. And this is our big strength and this is our big difference. We are a very complete player in the market from the view point of banners and mix in all regions of the country. And of course, a lot of value can be further created with multiple channels and synergies and advance very strongly in value creation in a recurrent fashion taking advantage of one-time opportunities, of course, but we must have a recurrent value being brought to the Grupo Pao de Acucar by our real estate entity.

So without further ado, I would like to give the floor to the members of the management of the company. I will give the floor to Christophe and afterwards I will say a few words. I'm very happy to be here and I'm very bullish and we will continue to deliver. So I'll give the floor to Christophe.

Christophe Hidalgo {BIO 17982648 <GO>}

Good morning, everyone. I would like to start the presentation. We can see that consolidated sales for the fourth quarter BRL16.3 billion excluding real estate project, 8% growth, excluding real estate project and among comparable stores 5.8% vis-a-vis the previous year. And during the same period, profitability measured by EBITDA grew from 28% -- to 28%, representing -- grew by 28% representing 8.7% net income for the company for BRL188 million with a 23.4% increase year-on-year, which is 3.4% margin.

The capture of opportunities in the real estate area allowed us to add 40 basis points to the EBITDA margin, which reached 9.1% of our net sales as the impact on the net income of the company by our real estate project allowed us to reach 36.4% increase with a 3.7% margin.

Now going to slide number three, we see that during the whole year sales exceeded BRL57 billion with a growth of 8.4% during the period and same store sales growth in the same period was sound reaching 7%. EBITDA for the period 2012 was BRL3.5 billion, which means a 6.9% margin with a 24.8% growth. And this good performance reflects the very good control over our expenses with the objective of not having -- or continue to be very competitive. Net, well, we had our net income growing from 39.2%, reaching best historical levels with 2% margin. The contribution of the real estate projects brought 30 basis points to the EBITDA and to the net income, which reached 7.2% and 2.3%, respectively.

Now going to slide number four, we can see that the net debt by the end of the year was BRL3.4 billion, showing a major deleveraging in spite of the significant level of investments carried out in the fourth quarter. By the end of 2012, net debt represents 0.93 times EBITDA and it is reflected in the reduction of the net financial expenses.

Now, I would like to give the floor to Tambasco, and he is going to talk about the food area.

Food retails, well food retail's results were not different from that. As Abilio said, it was a tough year but it was a rather successful year in terms of growth and good results retail. Vitor will be talking in detail about that and I would like to limit myself to a few points of our strategy, which has brought about this result. In the last few years, we have been talking about extensively about that.

Consumers have been changing their buying behavior and they have a higher purchasing power than they had in the past and they have been trying to establish a more and more complex relationship with retail. Because of that, our strategy, as Eneas said, the strategy of being a company that has a very complete portfolio in terms of models allows us to establish a strategy with two major focuses.

The first one had to do with multi-format or multi-channel. Our consumers more and more look for multi-banner and multi-channel, which has a lot to do with our strategy due to our portfolio and we are focusing our strategy on these aspects in terms of multi-banner and multi-format we are trying to reinforce each one of our formats having the best outlet option for our consumers at that specific moment, be it at the supermarkets or the neighborhood store or a hypermarket. So we have been focusing on the growth of many markets in the last quarter.

We opened 30 new stores of minimarkets at this model caters to these consumers in their daily needs and this also gives them an opportunity to strengthen our ties with these consumers with the Extra brand. At Pao de Acucar we have a significant gain because of the improved purchasing power of our consumers. They try to use and buy new products and look for other services and this offers our group or Pao de Acucar an opportunity to consolidate with a banner that caters to these consumers.

And the hypermarkets decides having resumed the extension of the store model, we are also trying to reinforce the offer of products and services in this model of store. And here I would like to highlight the textile area. This is an area that since 2011 we repositioned our product portfolio for this category in bringing Extra to ripe for the textile market with specialized stores with specialty stores and in 2012 we started the new reformed relation of the selling areas of this sector creating a much more present ambiance for our consumers and having other services and sales of the textile products and this has been bringing us a very robust growth in 2013.

We should be concluding the roll-out of this operation in all the hypermarkets, another area that I would like to highlight and that has a lot to do with this new consumer that I have just described and that looks more and more to have his or her meals outside their home to transform with the virtue for operations or place it there an operation hypermarket are going through a transformation in the implementation of restaurants, our own restaurants in these areas and this has been generating a new option to these consumers and also bringing a higher inflows of clients to our stores.

(inaudible) this will be talking in detail about that, but another highlight for Extra it increased of our galleries to offer more and more services to these consumers. And the second point of our retail strategy that Eneas has already touched upon is a search for a high level of integration between the physical world and the virtual world, in our several retail stores, the different model stores, with Nova Pontocom. In dozens of the Extra Supermercados stores, we had to already invented the kiosks of Pontocom that allow these consumers to have access to non-food products that these supermarkets don't have with a very big integration, with the Extra.com website.

And we also launched by the end of this year, the Extra Food Delivery operation. We only had this before with the Pao de Acucar and now we have launched with Extra integrated to the Extra Pontocom website Extra.com with the effort of deepening these point of contact with our consumers by means of the Extra brand. Our objective is not only to be close to these clients whenever he wishes to buy, he or she wishes to buy, but at the same time, we're able to reinforce the Extra brand as a better purchasing option for the clients.

And as Eneas said, for 2013, we are very bullish about the reinforcement of this strategy with a very aggressive expansion and we intend to deepen this integration with a virtual world, and of course, you will hear about that even more afterwards.

So I thank you very much for your attention and wish you all a very good day. And now I would like to give the floor -- I apologize, I will give the floor to Belmiro now and Belmiro will be talking about the GTA suit [ph] with Assai.

Belmiro Gomes {BIO 18107864 <GO>}

Thank you very much, Tambasco. Good morning, everyone. Talking about Q4 2012. Q4 in terms of sales, was against before the year for Assai, we had a very good increase in our sales and this increase in sales was 24% and it was driven by growth of same-store sales in the fourth quarter, which reached an 18.8% growth, closing the year with 15.7% with a growth higher than inflation, higher than two digits, which is unprecedented in the market as this result was obtained with the maturing of some operations in some categories in 2011 and operations regarding our target public. These new items as they are part of the basket of our clients, they increased the average ticket in a positive fashion, they have increased decreased by more than 15% as the remainder was the increased consumer traffic, which was more than 4% increase in the same-store sales. We closed with BRL1.542 billion, vis-a-vis with the figures that we had for the previous year and this increase and the strength of this category brought pressure to our LD and 10.6% advancement and 10.6% we've continued to gain efficiency in expenses because expenses do not grow as much as sales, neither in the year nor in the quarter.

For 2012, Assai was very positive, we had an 18.5% increase in total sales. We reached BRL5 billion in total sales and EBITDA went from 77% -- with an increase of 77% from BRL106 million BRL109 million [ph]. As our segment doesn't suffer so much pressure, 57% of EBITDA value was converted to (inaudible) 42% converted in net income without that of net income of 2011, which was BRL9 million as (inaudible) with a big capture of the results coming from the changes in the business, business has reached BRL80 million, eight times increased in compared to previous year, reaching a percentage of 1.8% of the net sales.

2012 was a year in which we reached the results of the adjustments in our commercial policy of Assai, but it was mainly the year that we got Assai for a new reap. We had a growth, organic growth plan which is very aggressive started in 2012 was -- in 2012, was definition of store formats and the sites and which is being executed in 2013. We spent 2012 to 2013 with over 40,000 square meters under construction that will be opened in the first half of this year, going from 7 to 14 states increasing its presence nationally. It will be a year in which we are sure that we are very good in terms of expansion.

Our team is very motivated with the growth of our business. We have been growing, working very strongly to have also growth in our people that is to say, say that they need development from that we are 100% sure that 2013 will be the best year ever so far. Thank you very much.

Alexandre Vasconcelos now will be making some remarks.

Alexandre Goncalves de Vasconcellos

Good morning. I'd like to move to slide six, where the sentence summarizes the real estate of the group. As mentioned, the clients are in constant change and we have to understand thorough and fully their new needs and expectations. That is translated into opportunities to improve the attractiveness of our sites with complementary offerings to supplement what is offered in our stores in the segments of leisure, health, well-being, convenience and food. As Tambasco mentioned, this is a transformation of our galleries, both through the expansion of their physical space the environment and also the inclusion of the new assortment of freights. This is in our retail operations.

We are well prepared to face these challenges. We have a responsibility such as our retail stores to have organic growth and also including renovations and maintenance of the stores. We have worked conservatively just because sometimes it's such a (inaudible). For example, expansion of the minimarkets, where we changed formats and processes and now have a dedicated team working in an integrated fashion, (inaudible) delivery of new stores. The time to open our new minimarket has been reduced by 50%, with the costs being reduced by 25%. In the next few months, we will be delivering more what I have just described.

Thank you very much, and now I'll turn the floor to Vitor Faga.

Vitor Faga {BIO 16103413 <GO>}

Thank you, Alexandre. On slide seven, we'll give you some highlights, pertaining to the growth of our selling area. This is a topic we've been discussing with you a lot. It is important to highlight that at GPA Food in the last quarter of 2012 we opened 38 new stores, a significant acceleration in the face of store opening, which represented more than 25,000 square meters of additional selling area added in this quarter alone.

In this ratio 16 new stores were opened, 12 of those were in Casas Bahia which comes to show an important expansion in the selling area in the food business segment. It's important to highlight specifically at GPA Food that we had a growth in the selling area close to 5% in 2012, but 4% of that growth happened in the second half of the year, which shows that basic growth in the second half a lot stronger than in the first half of the year (inaudible) we expected to evolve over 2013, adding selling areas through organic growth along 2013.

Moving to slide 8 I'm going to give you some business highlights. Our business results for GPA Food, the operations including food retailer or banners Extra, Pao de Acucar and Assai.

Gross sales grew excluding real estate projects 9% in the last quarter of 2012 over the fourth quarter of 2011. Gross profit was 26.9%. 0.8 percentage points compared to the same period of the previous year. Therefore, a growth of almost 13% in absolute terms associated with a reduction in operating expenses with the percentage of sales.

Now at18.1% operating expenses compared to net sales, which shows a synergy in the gain of operating efficiency, which is ongoing in GPA Food. And finally the net effect on the EBITDA margin. EBITDA margin, as mentioned before, increased as the nominal value of EBITDA increased by more than 20% for the period.

When we associate the reduction of net financial expenses with the reduction in our debt level the reduction in the cost of that debt has lead to a net income of BRL254 million which gives us an EBITDA margin of over 3% for GPA Food.

When we include real estate projects, net income in this business segment, above BRR300 million, BRL305 million, and a margin of 13.3%. These are the highlights for GPA Food that we wanted to share with you.

I'll now turn the floor to Ramatis, who's going to talk about Viavarejo.

Antonio Ramatis {BIO 17276918 <GO>}

Good morning. 2012 was a very important year in the process of integration of Viavarejo. This year we're focused on two main drivers: on processes and on our people. We prioritized the management of our processes. Let me talk about people, we have started a very strong process to strengthen our culture. We started a program called Nossa Causa, Our Cause, focusing on getting more engagement and commitment on the part of our staff.

In addition, we strongly focused on training, training our people. We had more than our people. We had more than 1.2 million hours of training. We also focused on professionalizing our management. With all the fact, as a result of that, we had sales growth of 7.4% -- same-store sales went up 7.4% up in 2012, the sales growth by repositioning and improved product mix or assortment of Ponto Frio stores. As Tambasco mentioned, in understanding of this new consumer, we are making adjustments in our marketing strategy, in our product mix strategy, so we can better serve these new customers.

In terms of expansion, in the year of 2012, 32 new stores and emphasis on Casas Bahia brand. Of the 32 new stores, we had 25 of those being Casas Bahia, 16 of these new stores opened in the Northeast and Northern regions. With that expansion, we currently total 49 stores in the Northeast.

Particularly, reduction of operating expenses, in 2012, we're focused on improving our internal processes, particularly with the introduction of new tools and management systems. That led us to achieve productivity gains and strong reduction of expenses. Eneas mentioned before, we had a reduction of our net financial expenses mainly due to reduced average collection in our customer's end. Another element contributing to that was the Selic rate, with our cash generation particularly this increased the profitability and improved inventory and suppliers management.

So 2012 for us is very important. When we start 2013 being confident that we are strong and well structured company with a highly motivated team to continue to grow towards profitability, competitiveness and to remain leaders in the market.

Thank you very much. I'd like to give the floor now to Quiroga to talk about Nova Pontocom.

German Quiroga {BIO 17954249 <GO>}

Thank you, Ramatis. Good morning. In the fourth quarter of 2012, Nova Pontocom had a challenge of reversing the losses accumulated in the first three quarters of the year and continued to grow and having the base of competition. The good news is that the Nova team was able to overcome the challenge. In the first quarter we had growth and positive operating results more than that, results related to our assets of the year, maintaining both our track record of growth with consistent strategic results delivering the guidance at the beginning of the year closing 6 to 12 years net cash above 100 million. Innovation, we developed a new strategic business for the company (inaudible). We restructured the marketplace, reading basket strongly and marketing analytics and supply chain in 2013, we can count on the results of all of our current levels in 2012. We are more prepared than ever to face a highly competitive market because of 2012 we will be having success with you to increase our efficiency and productivity. And as far as our operating results in the fourth quarter of 2012, now we have an unprecedented condition.

We can capture synergies that will be helpful to be more competitive. We also focused on (inaudible) one of the main competitive advantages that we have in multi-channel, strategic management together and is highly motivated just to make multi-channel a reality. Myself, German and other teams have been working together for a long time. We announced we are in a fantastic position to make this synergy witnesses. Client focus remains one of our pillars.

And finally, I would like to thank our team (inaudible) in 2012. My message to you is, in 2013, we will accelerate our growth, presenting our operating profitability and cash generation. Thank you very much.

Unidentified Speaker

(inaudible) of 2012 and in my presentation, I will talk about delivering the guidance for the year for the operation. This is a very positive year for us. Looking at our growth curve, in the quarter, (inaudible) more than 7.5 billion, almost 7% growth quarterly over quarterly, 6% same-store sales growth in India [ph] 2.2 billion in sales, therefore, delivering more than the guidance given at the 2012 of 25.7 billion that was the expectations for the operation.

In terms of gross profit, we had gross margin of 29.1%. The reduction comprised of first quarter of 2011 of 1%. For the second quarter, we have been talking about some allocations (inaudible) gross profit and other expenses for the 1% reduction in the first quarter was actually 0.5% reduction that was offset between gross profit and operating expenses. So this 1% reduction in the fourth quarter was actually 0.5 reduction but it was offset by our performance and control of our operating expenses. Operating expenses were reduced substantially in the fourth quarter. Even with increased growth in sales and in gross profit, operating expenses in the quarter were reduced by 6%. And in terms of percentage points of the net revenue, we had a reduction of 3.1 percentage points considering that is given in the press release, the 3.1% for the 2.5 percentage points.

That's not the performance we reached in EBITDA of BRL$579 million and EBITDA margin in the third quarter of 8.7%, growing 38.7% in the quarter our EBITDA. And in the year, our EBITDA margin was 6%, also in accordance with the guidance given to the market of between 5.7% and 6.5%.

In terms of financial expenses, just like the whole Group, we performed better, reducing net financial expenses. In the quarter we reached 2.5% of net sales, a 0.7 percentage points reduction compared to the fourth quarter of 2011, and year was 3% financial expenses, also within the guidance that we'd be below 3.3%. Because of all of these good results, our net income grew substantially in the quarter.

Net income grew 85.9% in net margin of 3.5%, in the year 1.4%. This 1.4% is a great growth an increase of almost 1 percentage point over 2011, and year-over-year, in Reais terms a BRL234 million.

I'll turn the floor now to Vitor, who will continue with the presentation. Thank you.

Vitor Faga {BIO 16103413 <GO>}

Thank you, Claudia. We're now going to start the Q&A session.

Questions And Answers

Operator

We would like to open the Q&A session now. We open the floor for questions. We currently ask you to list all questions to at once and then wait for the company to answer. (Operator Instructions) Our first question comes from the Tobias Stingelin from Santander. Go ahead, sir.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Good Afternoon to all. I'd like to understand in the guidance of expansion 150,000 [ph] square meters. This is further consolidated or adjusted for GPA Food. The first question is this, the second question is (inaudible) expansion of the gross margin. This is excluding Assai, which is quite expensive. We can exhibit that presence quarter with the reduction. Now it went up again quite a lot. How can we see that in a strategic sense and then how much -- if you could explain the gain in the first quarter. How can we see this activity looking forward? Do you think there's any indication of the pace for new gains for this region? Thank you.

A - Unidentified Speaker

So, let me answer your first question. Our guidance of 174, more than 174, more than 170,000. This is for the whole group. In the future where this gross margin tails about the growth guidance, solid growth, any guidance for new stores.

Basically, three promises are for the group as a whole. This is the mass food [ph]. Talking about the performance of margins in GPA Food. What I have here is clearly the change in the mix, in the participation of the segment. The minimarket in the neighborhood stores are expanding now, because the activities are positioning of that banner.

What happened in the aggregate of categories perishables in that market, which seems to me we have grown strongly. There is a critical in higher margin. There is another aspect involved here. The reduction in the consumption of the products overall. (inaudible). But there is a certain category that have higher EBITDA here and the better margin to a level, categories of dry beans, paper food, but they have very good margin (inaudible) the reduction of paper food and they include (inaudible) hypermarket or readymade dishes. These are all categories of products within higher margin and higher EBITDA. And this is fundamentally a shift to a growth profit.

Q - Unidentified Participant

And the follow-up question. And looking at the third quarter, this product mix shift to the more long lengthier things, this is on track with 70 PPI and now include more than 100 and I think, which is one of the reasons, but it's such a major shift from one quarter to another it is just inches to conclude, that when our mix of product launches. Just fundamentally this is an old product mix this will change in the market but if you know that you could say that and might mean force my answer but the performance of the housing market in the category of consumer electronics was not covered through the year as a whole?

A - Unidentified Speaker

It is really in the category of video and IT this is -- these are categories with which where it reaches the margins given the competitiveness in the market. So again, it is one, one page that reinforce the improvement in the margin mix. Despite the fact of the losses little bit of work in this category, but such a question is yeah, because fundamentally it's product mix reason. We got to think in other way. Thank you.

There is one question about the operation. How much is it -- I'm going to ask a question about the operation.

Hello, thank you for the question. This is indeed a very important point, because most of the gains that we captured were now in the first quarter as we can see, the results is interesting one. Many of the actions were implemented in the second half. Many of them are still being implemented, but we start capturing some of these gains, but principally, recovering in over 2013, we created the internal committee on losses we mentioned press release, (inaudible). We are analyzing controlling and it's looking allocate centers. This is going to come in focus we have been focused on our expenses and our cash. So that we can focus on a reduction of expenses. We'll have to create another committee that is concentrating on new opportunities to reduce the expenses of the company.

And income revenue from strategic issues that can be very important we're reviewing company which is the marketing and we try to think out of the box. So that we can start rushing sales space with low expenses which is been our work to-date. We should consolidate this change by the end of 2013.

Thank you. The follow-up it is reasonable to continue to believe that everything has been matched but now you are in the phase of deep monetization a good implementation of all of the exposure?

The answer is exactly part has been implemented and another part is being implemented at an accelerated phase. presumably as of December working on things that I had said it before, at the beginning of the first quarter, we have said it actually it is starting.

Q - Unidentified Participant

Thank you. Marvelous, congratulations. Have a good day.

Operator

Our next question comes from (inaudible) from Bradesco.

A - Unidentified Speaker

Good afternoon to all. My question is just regarding (inaudible). Could you elaborate on -- with regards with us from the logistic software collaboration? I request you talk a lot, give us an adjacent or perhaps within estimates.

Okay, looking at the collaboration as a whole, remember you won't have price competitiveness given the potential logistic expenses, they immediately -- to get some even bank loan and get that some more interest or what should we expect? Should we expect a sufficient impact on within tougher investments.

My second question is just direct costs this complex could you elaborate look at this further and have this aspect, any indicator to get solve about how to deliver, customer satisfaction, or anything you could give us. That's if you could have potential with the main competitive and also regarding expenses that mobile plans to call. How you swap such as cost, which we acquire in the customers, the expenses versus num paid with channels.

Could you give us an idea less in terms of - what we expect to imagine in performance, any osculation has been filed. Thank you.

Thank you for the question, logistical efficiency gain. Do you have relationship with the mix of product, which has changed, depending on the other value of the product expenses to show reduction. But, if you know what your logistics gain, but we have to find efficiency in the substantially have adjustment half of that run rate. Also, they have the ability to stock in the stores. They can stock more than everything to us. But time directing some of the suppliers have a reduction in cost were introduced in full, particularly because we're opening now. That happens, in fact, for the 70% [ph] of the stores, where the stores will take 100% of the product mix that directly from the industry, the manufactures. And with that, you do a logistic expansion (inaudible) then use this format, this banner.

Also about the data, (inaudible) but should we look at this data, which is (inaudible) gaining, which does not need (Technical Difficulty).

We lost our service. We have done that. We don't know -- we have one of the few diamond companies in Brazil and we have an indicator, which is the -- people wanted to buy them from us. To be a diamond is above 85%, very few companies manage that and they have an indicator over 90%, consistently in this indicator, meaning people are really interested to come and buy from us again. Another point, we are purchasing -- using so let me ask our customers who come and buy again and again. This is linked to other question in terms of expenses, that's about -- in terms of all marketing expenses, 80% of sales (inaudible) 80% of our stores, now about 80% of stores go to direct channels. This is relatively (inaudible) we don't normally comment but you asked for complicated metrics so there you have it. You mentioned marketing expense percentages, paid versus unpaid channels. Currently, approximately 80% of our sales are made via direct channels. That data point is relatively new; we

re not in the habit of disclosing it, but since your requested a quantitative data point, there you have it. That makes a big difference for us. Having brand portfolios as strong as those we do now Casas Bahia, Extra and Ponto Frio -- is what keeps that indicator at that level, in addition to the positive shopping experience, which really encourages customers to come back and shop with us, the issue of positive word-of-mouth relative to our level of service, all of that contributes to holding that indicator at that level. Relative to customer acquisition cost, thats not a data point that we disclose, but it is also correlated with that percentage I cited previously, and what I can say about thatI hope I have answered your question. Thank you.

Thank you very much, that helped.

Operator

Our next question comes from Fabio Monteiro from BTG Pactual. Please go ahead sir.

A - Unidentified Speaker

Good morning, everyone. I have two questions, one about Viavarejo -- I'd like to explore the expense aspect. I'd like to understand at what stage you're at in terms of controlling the expenses of certain items, such as marketing and logistics primarily. I'd like to know if for marketing you all have some kind of plan to internalize a portion of the advertising, like Pao de Acucar did several years ago. And in logistics, if you have some kind of strategy already developed with regard to the truck fleet and even the closing of distribution centers. I'd like to hear if you have some kind of expectation with regard to CADE's decision. So that is my first question. Thank you.

As Ramatis mentioned in his response to the previous question, asked by Tobias, the stage in which we are at in our actions plans regarding expense control, since we created our Expenses Committee in July of 2012, we've made progress on many fronts relating to IT expenses, the control of contract expenses, basically a series of revisions in that sense.

In 2013, we plan to continue to mature those plans and, obviously, we are always open to take into account and to analyze opportunities in all of the areas, including in marketing in logistics. In marketing, to specifically address your question, if there is already a determination relative to the internalization of the advertising piece, we haven't made a decision on that yet.

Because of the arrival of Ramatis and the knowledge he brings, his experience in that area, that know-how will certainly be very useful in ensuring that those discussions are conducted in a very interesting way at the Company. In terms of logistics, the progress we've made in 2012 and the progress we intend to make in 2013, I'll let Jorge Herzog address that point area, of course, his knowledge will be very useful for us to continue this to-date in the company. Regarding logistics, what we have been evolving from 2013 to -- 2012 to '13, I'm going to give the floor to Jorge Herzog.

Thank you very much, Elisa Soares. Regarding logistics, there are some work already done, there is some work already done in capturing synergies, we identified the possibility to carry out change of model in some areas vis-a-vis our own fleet and outsourced fleet. At the end of 2011 and over the year of 2012, we have already started to implement that and we think we have already reached this level, we have 60% fleet, 40% outsourced.

Regarding possible increases in synergies, today we already have a study that is advanced already regarding synergies in the Group and Nova Pontocom in one of the participants that will have an important benefit about using synergies between the different businesses, that we will be analyzing that and implementing over 2013.

In this regard, I would like to remind you that in logistics, there are some limitations that are with the respected party. So one of them has to do with APRO acquisition agreement for the possible version of transaction. It has to do with our logistics operations as soon as we have the decision by CADE, we will be able to advance and optimize the areas that we have today.

Regarding CADE, already answering your second question, with regard to expectation. We are very close CADE in all the debate together with our advisors and they have been telling us that the CADE's idea is to have this as quick as possible that is the decision about our case and we believe it is already advanced, because all the information that we (inaudible).

We have already submitted everything. So this is the reason why we believe that in the next two sessions, our case will be judged and we are bullish about the outcome. We still have some limitations regarding CADE, basically in logistics as I said before and also in some source that we could make decisions about them afterwards, because we have to wait for the CADE's decision. Our expectation is that for the next two sessions of CADE, our case will be before interest within, thank you very much.

Q - Unidentified Participant

I have one last question, a very quick one to the financial people. I think you have the revenue recognition of the last launches and the executions, et cetera, what is the pipeline that you have for 2014? Can you (inaudible)?

A - Unidentified Speaker

Thank you for your question. Our pipeline doesn't have anything independent in 2013. By that, I mean that the whole operations is linked to retail and we are working in the pipeline in the following array of actions. Already in design of the new stores in organic growth, we are increasing our galleries according to the costs that I described today our galleries and accessories are between 506,000 [ph] square meters and we are working with larger areas from 1,000 to 1,300 square meters for 2013.

So in 2014, we are going to grow this further and we are going to revisit all the stores that we already have taking the opportunities by means of increasing our galleries by means of remodeling these stores already at 50 stores. We also have fuel stations, we have pilots with convenience stores and we are negotiating staffs. I cannot give you any further details because we're about to close our negotiations with our future store owners and we have bigger initiatives as well in areas of about 2,000 square meters for the third quarter of this year.

Q - Unidentified Participant

Thank you very much.

Operator

(inaudible) from J.P. Morgan has a question.

Q - Unidentified Participant

Good afternoon, very quickly I would like to understand the rationale for the operations in Chesapeake? What is the rationale for the changes and what kind of change will this carry out in all your receivables discounts?

A - Unidentified Speaker

Thank you very much for your question. The decision was a major one, made by the company but this is not different from all the decisions that we make on a daily basis. You must keep in mind that the city we are close to there and to their maturity, so it was the right moment to think about the opportunity of either renew the business structures and due to the situation and the amount of what the situation, the liquidity situation, and the perspectives for the market, we deemed it was convenient not to renew the structures. And today, we have devised position to tap into the opportunities that the market offers, or in other word, this decision allows us to optimize our discount operations in a more positive way than we could do with FDIC structures. Of course, I'm not going to get into details of other cost and the expenses regarding discounts (inaudible) but I prefer that exiting the FDICs was a decision that allows us to improve our discount structure.

Q - Unidentified Participant

Thank you.

Operator

Thank you, we now have a question coming from the (inaudible). Our next question comes from Richard Catheart from Banco Espirito Santo. Please proceed.

Q - Richard Catheart

[Foreign Language]

A - Unidentified Speaker

Could you please repeat the question?

Q - Richard Catheart

[Foreign Language]

A - Unidentified Speaker

Excuse me, can you please ask your question in English?

Q - Richard Catheart

Sorry. The lower gross margin Assai in the fourth quarter, will that continue for the next few quarters? And (inaudible) that price revision against the competition at Assai or does it need to improve.

A - Unidentified Speaker

Thank you very much for the question. The gross margin drop in Q4 was much more due to the effect that we were seeking more sales and the inclusion of some private groups in our legal entity (inaudible). The change in the participation of interested groups could cause a drop which was non-typical in the few industries.

For 2013 it shouldn't be the same scenario, a drop in margin could happen (inaudible) largely to the opening of the new stores and this would be only natural because a store when it is opened to meet the management cost, the margin is lower. However, this will not be happening for the existing stores.

Q - Unidentified Participant

Okay, thank you.

A - Unidentified Speaker

Okay, have I answered your question?

Operator

(Operator Instructions) Ms. Tina (inaudible) asks.

Q - Unidentified Participant

Good afternoon. I would like to add to Tobias' question. I would like to understand how much is recurrent in your gross margin in the food area in the fourth quarter. And I know that in the next three quarters, this is not going to happen. How much of this improvement in margin was because you launched products with lower margin sales, what we need in other words is a guidance for margin for the food area?

Regarding expansion 4.8, so how comfortable can we be with a minimum fixed guidance and that could reach eight, I think it was past guidance for 2013 in terms of selling areas. Tina, this is Vitor. I would like to start by answering your second question. We had 4.8% trickling through increase in 2012 whereas our expectation was to go slightly more than that. And what's happened was that we had to postpone the opening of some stores from late 2012 to early 2013 and in Q1 2013, the pace of new stores being opened would be substantially faster than what we saw last year in the first half.

How comfortable can we be with this pace for 2013. We are comfortable, because growth in 2012 in the second half was much stronger than in the first half of the year and this shows our expansion phase due to many factors. For instance, the implementation of a specific process for the opening of minimum (inaudible) stores, meaning massive stores. This is much more agile and it allows us to open for instance 30 new stores every quarter.

This is the reason why we did that in Q4 and this means one store in every three days and of course a new process has to be implemented regarding (inaudible) development and the opening of the stores. So, we are very comfortable with this phase of opening new stores, particles matching.

We will be disclosing our guidance for the company for each one of the business units which was a little bit later on. It will be a more detailed guidance about this is in Q2. But anyway I would like to give the floor to (inaudible) and he will be able to say something about the team. Okay.

A - Unidentified Speaker

Hello Tina. I would like to reiterate the mix, which is very significant, which was difficult in some aspects it represents in terms of participation only. This is our daily routine, every single day we look at the markets and we of course make price adjustments and what is more difficult, what is easier, have you seen productivity, you try to improve efficiency every single day and improve the negotiations with suppliers, focusing dynamics of people.

Of course we can have something like an initiatives such as the one that I mentioned in apparel or textiles and the (inaudible) which are categories that contribute to higher margins, they could give you some room for maneuver. But the dynamics of our business.

Can you just (inaudible)?

It is going back to your suppliers negotiating with them all the time and they are key thing will be never changed what is my price competitiveness these are our competitor thing. Each one our markets involves with the outcome, what is the result that we have to achieve ultimately. And we try to establish an equation and by tune it also guarantee that we do not want to lose competitiveness

because of the needs to look for market share and we do not touch our results. So, looking ahead the dynamics is big. This is what happened last year and this is what will happen this year. We don't lose competitiveness and we don't lose profitability. And this is where you have to fine-tune all your variable with these with your suppliers or the category making all this guarantee this outcome.

Okay. (inaudible) something. What about same-store sales at the beginning of the year? Do you see the same mix that you have in the fourth quarter net of the seasonal products like Christmas items (inaudible) you see the swamp continuing or the weaker same-store sales with a better mix and better margins level. Thank you.

Indicate us how the markets. As usual if it and thus the year our performance in IT is well than I described, with the very strong increase in the food areas again maybe in fresh (inaudible) we have better margins. So, this is true. So, I can say that the picture that we had in the last quarter should be maintained.

Thank you.

As there are no more question, I would like to give this floor back to Mr. Vitor Faga for his closing remarks. Mr. Faga you may proceed.

A - Vitor Faga {BIO 16103413 <GO>}

I would like to thank you all very much for participating in our call. And I know (inaudible) conference call about our result and if you still have any doubts could be please contact our investor relations area. Thank you very much and I wish you all very good afternoon.

(inaudible) Conference Call about results for the fourth quarter is closed. The investor relations department of the group is available to answer any questions that you might have. We would like to thank you very much for your participation and wish you all very good afternoon. Thank you.

I would like to thank you all very much for participating in our call. Another Via Varejo speaker conference call about our result and if you still have any doubts could be please contact our investor relations area. Thank you very much and I wish you all very good afternoon.

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