Y 2020 Earnings Call

Company Participants

- Eugenio De Zagottis, Corporate Planning and Investor Relations, Vice President
- Fernando Spinelli, Investor Relations and Business Development Director

Other Participants

- Analyst
- Guilherme Assis
- Joseph Giordano

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to RD People Health and Well-Being Conference Call to discuss the fourth quarter of 2020 results. The audio for this conference is being webcast simultaneously through the internet in the website, ir.rd.com.br. In that address, you can also find the slide show presentation available for download. In start all participants will be only able to listen to the conference during the company's presentation. After the company's remarks, there will be a Q&A period. At that time, certain instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of RD management and on information currently available to the company. Forward-looking statements are not guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand the general economic conditions, industry conditions and other operating factors could also affect the future results of RD and could cause results to differ materially from those expressed in such forward-looking statements.

Today with us are Eugenio de Zagottis, Investor Relations and Corporate Planning Vice President; and Fernando Spinelli, Investor Relations and Business Development Director. Now, I'll turn the conference over to Mr.Eugenio. Please sir, you may begin your conference.

Eugenio De Zagottis {BIO 7193695 <GO>}

Hello, everybody. Welcome to the Raia Drogasil 2020 earnings call. And I'd like to start by saying that 2020 was a landmark year for Raia Drogasil on several regards. I mean, I think first, I mean, we set a new aspiration for the company which we unveiled in our Investor Day, which is of becoming the company that most promotes access to a healthy life in Brazil. So this is a very bold aspiration and we have also unveiled our new strategy for us to go after this ambitious aspiration that I mentioned.

So the new strategy that was presented also in our Investor Day is based on three different and complementary elements. First is the New Pharmacy, which is the resignification of the pharmacy into a health hub with several services being provided to our customers there; and by adding a digital experience, both inside the store and through an omnichannel experience through which the customer can buy through whatever channel he or she chooses, and we deliver from our stores, or the customer can come to the store and collect. So this is the New Pharmacy.

The second pillar is the Marketplace that we are just starting to implement and we already have some vendors and we are in very early days here. And then the third pillar of our strategy is the Health Platform through which we will support the customers by providing journeys related to exercise healthy food, sleep, mental health, et cetera, et cetera, et cetera. So it's -- I can easily say that, I mean, I think we are exactly at an inflection point in terms of our strategy. As you know, our merger happened in 2011. I think from '11 to '19, we have grown through a traditional repayment strategy, very much based on organic growth, on improving big retail execution, we had an initial destabilization, but from 2020 and onwards, I mean, we are really looking at this new strategy of becoming a broad health platform supporting people to better take care of themselves.

2020 was also the year in which the COVID pandemic started, and I mean this has been a huge challenge not only for us as a company, but to the country and to society in general. But unfortunately, many lives have been lost, people have been hospitalized and obviously there has been also a very relevant business challenge for us to tackle, especially in the second quarter when social isolation was very stringent. The traffic at our stores reduced tremendously. We had stores at shopping malls initially closed, later on operating with short working hours.

But at the same time, the pandemic has been a tremendous catalyzer for our strategy. And the timing of our strategy has been a very happy one, because we have been working a lot in digitalization for at least one year when the pandemic struck, and then we had to change a lot and adapt our execution to support our customers in this environment. So in terms of health services, we have provided life to the Health Hub, we have done a myriad of COVID testing. Up to now, 1.4 million COVID tests have been applied at our stores since May.

And in terms of digitalization, we had a lot of new services. We already had Click & Collect in all the stores. We had the neighborhood deliveries through which the customer orders by social media and directly to the store manager. The store delivers on the foot to the customer who lives in the immediate neighborhood, no delivery costs charged. We're doing this with existing store infrastructure. We have also upgraded our normal digital services, upping the number of stores from which we do not (inaudible) There was a huge adaptation for us to serve this customer and this adaptation has resulted in only a minor impact financially through the years.

If we look at our performance metrics in the year, we had absolute increases across every single metric and we had only slight margin losses for the whole year, even though we ended the year with a very positive fourth quarter in which not only we had great absolute gain in these financial metrics, but the margin has also increased, which I think provides a good momentum entering this year.

So let's go over the highlights here and also let's remember that all the numbers we're talking about in the presentation, they are under the IAS 17 standard, which is the Brazilian [ph] standard as opposed to IFRS that in our view doesn't express well our business. So we try to present in the same way we look internally, and internally we believe that we pay rentals and this is an expense, and the leases don't belong to us, we just have to pay the rentals. So we look exactly in the previous accounting standard, which has full historic comparability and this is how we look at our business.

So we ended the period with 2,303 stores in operation, this includes four 4Bio stores. So if you talk only about retail store, we're talking 2,999 stores. So it's possible that in some charts we have this number, which is just the retail stores without the 4Bio. Here we have the full picture. We opened 240 retail stores. There was also another 4Bio store, so it will be 241, but we pay (inaudible) 240, that's what we count. And we closed 11 stores in the year.

When we talk about market share, we had a lot of bumps through the year related to the shopping malls being closed, related to reporting issues. But we are happy to end the year with a very positive outlook. We gained 100 bps of market share nationally and we had increases in every single region where we compete. Our revenues totaled BRL21.2 billion. We grew 15% in the year with mature stores growth of 4.5% for the year, which is 150 bps below -- below inflation -- no, no, sorry, so we ended the year with -- so in the fourth quarter, we did 6% mature store growth, which was 1.5% above inflation, so inflation was 4.5%. In the year we did 3%, which is 1.5% below. So just making myself clear here.

So it was challenging during the year. We lost some operating leverage here. We are -- we found other ways to offset doing the year, but in the fourth quarter when traffic normalized and when we posted real gain in mature stores, then operating leverage appeared in all its splendor.

We had a store contribution margin of 9.5%. So just to clarify here, store contribution margin is gross margin minus sales expenses. This is basically EBITDA pre-G&A, and the reason we start looking a lot at this metrics is that because of the transformation we're undergoing, we see a lot of pressure in G&A. We have some pressure already there, there will be more pressure going forward. We don't mind because we're doing what's right for the long term and what will create long-term value. But the health of the core business is better captured by looking at the store contribution margin rather than by the full EBITDA. So in the year, we had 9.5%, 12.2% gross increase and 30 bps pressure in margins. But when we look at the fourth quarter, it is 23% increase in store contribution margin with 50 bps of store contribution margin gain.

Finally, EBITDA, BRL1,429 million for the year, 6.7% EBITDA margin with 6.4 % of growth. For the quarter we had 7.3% EBITDA margin, this was a margin expansion with a total EBITDA growth 23% which is also very interesting. Net income, BRL600 million. We also had a slight margin pressure for the year, but we ended the year in the same positive pace of the other metrics, with 20% net income growth quarter-on-quarter.

Finally cash flow, I think it was the major financial highlight of the year, BRL291 million of positive free cash flow. So this is not our first year of positive free cash flow generation, we had several years, actually I think we had most years, but never this much. And it was so high to the point in which even the total cash generation after paying interest on capital, financial expenses, taxes, et cetera, et cetera, et cetera, we generated BRL104 million, which reduced our net debt by the end of the day. So it was a very positive year.

And finally, another highlight here is the support fund we instituted named Every Care Counts. This is a grant of BRL25 million that was -- through which we donated money to support 51 hospitals outside of the major metropolitan centers in Brazil to support the communities in several areas of the country to fight COVID-19 while lasting a positive legacy for the community.

Okay. So next page, I think here we see, the Page 4, the big picture in terms of our -- how we did this year in growth and panning together the whole track record. I think the main message here is, despite the pandemic this was another year of sustained growth with value creation. If you look since 2011, the year we merged, I mean, we have multiplied our store base by 3x and we have moved -- we have evolved from BRL4.8 billion revenues to BRL21.2 billion in revenues and we have multiplied our EBITDA by 5x. The main point here is of the company you know today, two-thirds was built since the merger under your very eyes through this whole time. The only reason why we are able to grow so much, increase EBITDA so much, gain margins and et cetera, et cetera, et cetera, is because of the quality of this expansion.

And this is something absolutely unique, because we have posted very constant expansion, growing numbers up to 240 store a year, at the point in which we maintain 240 stores a year. We have always achieved the same returns of our legacy stores, and we are the only player to do it, to have an expansion this fast, this constant and this accretive to the business, while every other competitor who tried to accelerate, sometimes they had to stop, they had to fix, they had to close stores and our growth has been linear and undisturbed, and it shows exactly in the numbers that we have here.

Page 5 gives you some highlights on the year's expansion. We have opened 240 stores this year, plus one of 4Bio. We have closed only eleven stores in the year and ended the period with 2,299 stores retail plus some 4Bio stores. Our -- we have 33% of our store base comprised of maturing stores. So there's still more growth momentum and operating leverage to be captured here. And we also reiterate the guidance of 240 stores, both for this year and for next year.

Page 6 gives some more color here. We reached this year, last year, 409 cities in Brazil, so it's a very high number of cities. And here in the center chart, it's impossible -- it's important to highlight the economic profile of our expansion. Everybody knows how geographically dispersed our expansion is, how national the expansion is. What I think we're trying also to give in the center the same disclosure here is in terms of how diversified it is from an income standpoint.

So, we have today, by the end of the quarter, 66% of our store base which is comprised of hybrid and popular stores, which serve the Brazilian expanded middle class. But if you look at last year, 86% of every store -- of the other store added were hybrid or popular. Only 14% were A class, with two generally seen by the market as an A class chain. And what I'm showing here is this is not true, and this will be -- and we would be more and more popular going forward as we keep maintaining the diversification approach.

And finally, of the 53 cities we added last year, we can see that they had an average population below 100,000 people, and we see this bar falling which is a good thing. It shows -- it can show that we are entering smaller cities and we're doing that with the same success we always enjoyed in our core cities, in the larger cities. And the reason is because, first, I think we have a model which has tremendous appeal wherever we go due to the quality of our execution.

And in these cities, we don't have cannibalization because these are new stores, I mean, we are entering them. While when you grow in cities like Sao Paulo, for example, we have cannibalization and we have to factor cannibalization into our return accounts which we do. So on a net basis, we have the same returns in these small cities as we have in a city like Sao Paulo.

And by the way, just before flipping to the next page, talking about the diversification of the growth in terms of historic levels, I mean, actually it is Page 7 here. I'll start with the bottom here. We see that last year we opened only 66 stores in the state of Sao Paulo. So we're talking 72% of all the stores opened outside of our core market, outside of our native market, and again with the same returns. But the number that is not mentioned here, that for me it's even more striking that this is the fact that we have opened only 12 stores in Sao Paulo, in the city of Sao Paulo. Also, all these other 50-plus stores have been in the metropolitan region and in the countryside where we have more white space than we have in Sao Paulo.

In the city of Sao Paulo, however, we have 30% of market share, something like that. And we are not opening many stores because of cannibalization. Cannibalization doesn't exist only for those who don't know how to measure. So every player who measures cannibalization, has the analytics capacity to do it, cannibalization in major areas is an issue that has to be tackled. And this is the reason why we have been so conservative in Sao Paulo. But at the same time, we are seeing competitors who have -- who are regional leaders in their markets with a much higher share than we have, in a much smaller market than our native market, and opening way more stores than we were opening in Sao Paulo. For me this is a time bomb, this is a disaster waiting to happen.

The main reason why I think our expansion has been so assertive, I mean, obviously, managing cannibalization at home is a big concern and we are doing just that, and not everybody's doing that. But the other aspect is that we are swimming in the blue ocean while everybody else is trying to swim on the red ocean. And the reason is, we are today present in 24 states within Brazil. We now -- we have two states that are very recent, Rondonia where we just entered and opened two stores, and in Amazonas where we entered also last year -- sorry, the previous year, we have only seven stores up till now.

So these stores are new, but we do really well there. But all of the other stores, I mean, they are core markets for us already. These are markets in which our brand is very established. In all these markets, including the new markets we have operations with mature stores that are very high in line or better than what we have in Sao Paulo, and we'll -- and even the markets where we don't have mature stores yet, the stores that we just opened, they are trending exactly towards that same direction. So we have a much bigger playground where to look for stores, where we have the brand already established than everybody else, and this is why we're swimming on the blue ocean while everybody else who tries to go to new markets, right now every market is crowded, entry barriers are huge, and that -- and hence the red ocean that I mentioned.

Some highlights here. We've reached 61 stores in the North region, our most recent region. We have nearly 300 stores in the Northeast region and we have a -- we are becoming very quickly the reference player in almost all of these markets. And it's important to highlight that if you look in Bahia, for example, we are already market leaders despite being in Bahia, I don't know, for six, seven years, we are already the leaders in Bahia and the leaders in Salvador, the capital.

When you look at Pernambuco, which is the largest state in the Northeast, we have -- we are leaders in Recife, the capital, and we're close to be the leader in the whole state. So it just shows that despite our presence here being relatively new, how important these markets already are for us and how relevant we are already there.

Finally, we opened this year in Rio Grande do Sul. We have 243 stores in the Southern region, 59 in the state, and this will allow us to accelerate the expansion into Rio Grande do Sul. Rio Grande do Sul is a bigger market than Parana, but we have less than 60 here versus 127 in Parana. So it shows the opportunity that we have here, and then this DC is instrumental in allowing us to go after it.

Finally, in terms of market share, we gained 100 bps nationally with gains in every market, highlights being Sao Paulo where we reached 27.1%, 80 bps of gain, Midwest we gained 170 bps, South 130 bps, Northeast 110 bps, and North we went from 3.6% all the way to 6%.

PJ, talking about top-line growth, we had a top-line growth for the year of 15.1%, we have 16.7% for the fourth quarter. So, retail grew in the fourth quarter 19.5%, 4Bio grew 21%. The highlight of the mix has been OTC, OTC is very heavily influenced by the pandemic, all the categories that are directly affected are here, COVID tests, masks, vitamins, et cetera, et cetera, et cetera. But we will like to highlight also the amazing performance in generics which grew 18% in the year, 19.5% in the quarter, driven by the price adjustments we made two years ago, which continued to sustain tremendous growth momentum for us.

Page 9, taking a look at our comps, so, I'll go straight to the mature stores, which for me is the most important number. For the whole year, our mature stores grew 3% to 1.5% below inflation. But for the quarter, it was 6%, 150 bps above inflation, and show -- and resulting in tremendous operating leverage, which really explains our margin expansion in the quarter.

On Page 10, it's important to see how relevant digital became during the pandemic. This has to do with the demand, but also the fact that we were ready to some extent and we -- and we also accelerated a lot of our efforts. In the peak of the pandemic, we got to 7.6%, now we are at 6.3%. This number is kind of stable and we believe it starts growing again this year. So we're talking basically BRL1.2 billion in digital revenues last year versus BRL0.3 billion in the previous year. So we multiply it by 4x, driven obviously by demand in the pandemic, but also the fact that we already and we adjusted very quickly our operation to serve our customers and take advantage of that.

In addition of having Click & Collect and neighborhood deliveries in 100% of our stores, we have 241 stores as hubs for motorized deliveries in one to four hours. We reached nearly 8 million cumulative app downloads by the end of the year, and our digital channels have a monthly traffic of 25 million -- 24 million accesses.

Next page, talking here about gross margin. We experienced gross margin pressure both in the year 40 bps, and in the quarter 30 bps. 20 bps of this is due to the net present value adjustments. These interest rates are lower than the previous year. But this is a non-cash effect, is really an accounting factor. And then there is a slight impact also of margin investments from digitalization of operations. So things like smart coupons that we are providing, tremendous focus to drive digital onboarding of our clients that obviously, they have a cost and the cost shows up in the gross margin.

But we are not measuring our efforts here. We will do and invest whatever it takes to digitalize our customers, because not only the customers who become omnichannel increase their spending 20% to 25% by doing that. So there's tremendous value creation there in the New Pharmacy. But these customers are the customers who fill the new businesses, both the Marketplace and the Platform are clearly digital businesses. Without New Pharmacy digitalizing the customers, they are worth nothing. So the New Pharmacy is the main priority and customer digitalization is absolutely critical for our strategy.

And finally, here on the right, cash cycle reduced by nearly 5 days versus last year, and by 30 days from the peak of the pandemic in the second quarter. Let's remember that in the second quarter we increased inventories to have a safety buffer in case any supply chain disruptions happen. And also we had the delay of the price increase from March to May, so we supported high inventories for much longer. But this reduction which happened in two quarters show how much control we have of our working capital today. So, this gives us tremendous stress to be able to increase inventories opportunistically whenever needed, but we know that in the end of the day, we have full control of it and it gets back to normal whenever we so desire, like it has happened now.

Page 12, talking about selling expenses and store contribution margin. Despite the fact that mature store sales for the year were below inflation, we were able to maintain flattish sales expenses, actually 10 bps of dilution. But in the quarter, when we go -- where we got this huge operating leverage that I mentioned before, then our sales expenses dropped from 18.3% last year to 17.5% right now. And this has driven a store contribution margin expansion of 50 bps in the quarter, while in the year it went down by 30 bps because of the pandemic.

This metric , as I mentioned in beginning, it's very important to capture the efficiency of the core businesses, because we are at an inflection point in terms of our strategy. We're investing a lot in people, analytics, agile teams, cloud, et cetera, et cetera, et cetera on our G&A. So it's important not to miss the picture of how healthy the core business is.

When you look at the G&A, as I mentioned, Page 13, our G&A reached 3% in the fourth quarter. This is a 20 bps increase versus 4Q '19, but the 4Q '19 had a peak. So in the end, the increase is higher than this. So 30 bps of this expansion -- sorry, of these expenses, and 20 bps of the expansion is directly related to agile teams, cloud, analytics, microservices, et cetera. But there are way more indirect expansions like people, structure, new positions related that are not captured here. So in the end, the deal we have to pay for this transformation is higher than this 20 bps -- than the 30 bps here.

This has driven an EBITDA margin loss of 60 bps in the year, but with positive -- with absolute increase. But in the quarter, both happened, not only the number increased a lot in absolute terms to BRL430 million, but the margin increased also by 30 bps despite the G&A investments we have made. If you look only at our retail business, our margin for the year is 7%, for the quarter it's 7.6%, while for 4Bio, which is 1.3% in the year, and we saw a recovery through the year and reached 1.9% in the fourth quarter.

We had BRL33 million of non-recurring, non-operating expenses. Main ones have been donations, so BRL25 million for the hospitals and other incidental donations, BRL29 million in total donated to support our communities. BRL16 million in consulting expenses. Consultants are very happy about our transformation because we have so many new businesses and charter territory that we need more support than before. But in this case, it was related to the initial establishment of the platform, so it's adjusted BRL60 million, other provisions BRL11 million. And finally, tax recoveries from previous years, which would have increased our results by BRL36 million.

Page 15, net income reached BRL600 million in the year, 2.8% of margin, an absolute increase of 2.4% with a 27% increase in the fourth quarter. Cash flow, as I mentioned, the main financial highlight here, we generated BRL209 million of free cash flow absorbing nearly BRL700 million in CapEx. And when we deduct interest on equity financially -- financial interest et cetera, et cetera, et cetera, our total cash generation was BRL104 million. So, this resulted in a net debt reduction from BRL920 million to NRL820 million from one year to the other. So our leverage ratio also went down by 10 bps, from 0.7 to

0.6. So this highlights both the resilience of our business as well as the strength of our capital structure.

Page 17. We created BRL6 billion in value for our stakeholders. Our homing partner here, as it is for all Brazilian companies, is the government. 45% of this value creation went in the form of taxes. 33% was to our employees and to support their families, 0.8% third party like landlords, service providers, et cetera, and 0.5% to shareholders, 8% of the total pie.

We had a share appreciation in the year of 12% versus only 3% for IBOVESPA. Very high average trading volume of nearly BRL180 million. And here on the bottom right, I think some of the highlights of the year. We did a split 1:5 in September, exactly to be more friendly to individuals. Since interest rates dropped in Brazil, two things have happened. A lot of money has gone first to local institutional investors, they are becoming more relevant, and to individuals who were almost absent from our cap table. So right now with the split and by communicating better to individuals, we start -- they are still not very meaningful in terms of the cap table, but they are already -- they start making a difference in terms of trading. And this is very important for everybody involved in new substantive efforts. Finally, we have joined the ICO2 index of B3, which is related to carbon emission. We're very proud about that. And our next goal here is to join the more BOVESPA Sustainability Index, which we haven't done already.

Well, summing up here on Page 20, what be accomplished last year? The first thing is, as the pandemic struck, becoming a safe harbor for health and well-being for our communities, for our employees, for our customers. So it started with very rigorous safety protocols. We are the first to implement these protocols in store to separate employees from customers, providing safe distance for everybody, the gatekeepers of the store, to give hand sanitizer, control the flow of people inside the store at any given time. Another important, we did a lot of things to support our own people. So for every people, every employee who had hospitalization, we covered 100% of what was related to COVID, even for people who did -- who opted out of health insurance. And we also provided for free telemedicine service with Albert Einstein Hospital. So our people did last year, they and their families, 24,000 telemedecine consultations with the Albert Einstein Hospital. For those who are not familiar, this is probably Brazil's and South America's premier health institution, you could compare it to Mayo Clinic, Beth Israel, any of these really reference centers around the world. And this is the kind of care that we looked for our employees.

We preserved every single job post, we actually increased the total number of people in the company and we also preserved full remuneration of every employee on temporary leave. And in our journey to become a health hub, we have performed so far 1.5 million COVID tests. If you look only last year, it was 0.9 million, if you look May 2020 up to today, it's 1.5 million COVID tests. It's a huge number, we have put together numbers from pharma and from the association that represents the labs like Floridas [ph] et cetera. We have to-date more than 7% of national share in COVID testing. This is a big number, this makes us certainly one of the leading testers of COVID all over Brazil and throughout several different health verticals.

We also achieved record NPS scores, because the customer recognize all adaptations through the pandemic, how our people -- how the store was physically adapted, the service our people were providing. So this was an amazing recognition for RD. And then, as I mentioned before, to support the communities we donated BRL25 million to 51 hospitals, which equipped them to fight COVID, but also leaves a permanent legacy for those communities.

And financially, I mean, all these efforts translated in mitigated sales and margin losses, and actually absolute growth, both for every financial metric, with a highlight in the fourth quarter in which both margin and absolute numbers went up in a significant way. So I'm repeating myself here, but 17% yearly growth in the fourth quarter, above inflation, BRL1.2 billion in digital revenues which comprised nearly 6% of total sales, 4x bigger than the previous year. We fully delivered the 240 store openings we promised. We opened the new DC in Rio Grande do Sul and closed our oldest DC in Sao Paulo, transferring capacity to the remaining two DCs in the state. And this amazing cash generation, BRL104 million total cash generation, leverage reduction.

On the next page, it's very important here. We set this year a very important aspiration, which is becoming the company that most promotes the access to a healthy life in Brazil. So this is something we really believe in and this is something we are starting to work towards. So how we got to this, I mean, the first thing is that we are looking to an expanded service to our customers. It's not only about being a drugstore but looking integral health as a whole. So our road has been widened, our market has been expanded. This aspiration is very related to our purpose, which is taking close care of people health and well-being in all times of their lives. And for the first time we have a single common aspiration that drives both our business strategy, which is more and more related to the healthcare and to promoting connection to a healthy life, and to sustainability, where our focus is no longer on mitigation but in regeneration, helping develop a healthy society. So, all this connects and translate into this common aspiration that we are going after.

To deliver this common aspiration, we have the new strategy that we unveiled in our Investor Day, which has here -- it also stems from our purpose, it has three pillars, New Pharmacy, Marketplace and Health Platform. And it shifts our markets served just from pharma retailing to integral health, as I mentioned before. So this is a journey that is very important for us. And the number one, two and three priority of this journey is the New Pharmacy. Because as I mentioned before, a digitalized customer spends 20% more when -- after he adopts digital, and Marketplace and Platform are purely digital businesses.

So they rely on the people we are able to digitalize with the New Pharmacy. The pharmacy for us is a cornerstone of the model. It's both a customer acquisition machine and a digital onboarding machine. So if we are successful in the New Pharmacy, the number of digital customers will start increasing a lot as you has -- as it has happened last year, and this will feed this new business. So this is how we look at this. But we're starting to build this business also as we speak. Marketplace is already up and running for one of our banners. We already have a reasonable number of sellers, but it's very early days. And the Health Platform is still being just stated, but it will see the light of day to this year.

And we have several enablers here to do this, one of which is RD Ventures. In the next page I highlight the recent investments we have made through our RD Ventures, which is our corporate venture capital platform. We have recently invested in three startups, three health-techs. It started in July with Manipulae. Manipulae is a marketplace of apothecary pharmacies. Apothecary pharmacy is a vertical very close to our core business, several competitors they have their own apothecary pharmacies, we don't. But now through Manipulae we can integrate into our marketplace, into our stores also and we are already starting to offer new service to our customers. So, it's a very obvious synergy. They have a team of 35 people.

We announced very recently, if I'm not mistaken, last week, the acquisition of tech.fit. So it was actually February 18th, so it's more than -- wasn't last year -- last week. So what this is? This is a startup that has been around for something like 10 years, and they are focused on developing digital solutions to promote healthy habits, behavior change. They have 31 million customer base. They have several paying customers in this base, and they have a myriad of solutions for healthy eating, for exercising, and an expertise to change the behavior of the customer that will fit perfectly into our platform. So basically, all these features, all these platforms have been incorporated into our apps to support our full customer base in taking better care of their health. So it accelerates a lot the development of our platform. We have a team of 41 people.

And yesterday night we signed Healthbit. So this is a startup that has big data solutions, focused at companies to reduce their healthcare costs. But it's not only a cost play, this has to do with health promotion and disease prevention to 1 million employees. I'll give you an example, like pregnant women. So a lot of companies that Healthbit works for, they have put in place programs for tracking pregnant women, making sure they do their prenatal exams, that they are fully tracked, and this in the end translates to better health for the mother, better health for the child, and lower cost for the co-pay. So, this is a B2B company, but in the end it touches the lives of the employees. And they have a team of 57 people.

Finally, I would like to highlight how broad our mandates can be with RD Ventures. In the case of Manipulae, we have a minority stake with best to control, and later on full ownership. In the case of tech.fit, this is so basic to the product we're creating that we decided to buy 100%, it is almost like an acqui-hire, these people start becoming part of the health platform team. And with Healthbit we already have control, and I have a path in five years to full ownership. But we could just as well have another -- have a start-up with only minority stake without any path to either to control or to full ownership if that makes sense. So we're very open here and it has a very flexible mandate, and we're tailoring these -- the idea -- they do mandate for each situation. They do structure, sorry, for this situation.

And finally to conclude here, the challenges and opportunities for next year. As I mentioned, the number one, two, three four and five priority is digitalizing the experience of our customer in the core business, becoming a true digital company. So the whole focus on the New Pharmacy, as I mentioned before, stores at the gateway both our customer acquisition and digital onboarding with very low signing fees. We don't have to pay Google, we don't have to pay Facebook. The CapEx, you already saw fully paid in our cash flow, is bringing these new customers and the store is also converting them to digital. As I mentioned before, because the new business will be fully digital, we need the New Pharmacy to digitalize the customer to feed them. So this is absolutely important.

And another thing here that's paramount is the experience. The NPS we have in digital is too lower and significantly lower than in the stores. So, our first milestone here will be having an experience and obviously this split is different, but it has to be just as good as experience in the store. And the other thing is that the benchmark of our customers is not our competitors. The benchmark is happy, the benchmark Magalu, the benchmark is MELI, the benchmark is Chispra [ph].

So our experience -- people who are experienced towards state-of-the-art apps, when they get our app, they are not happy yet. And our app has improved significantly over the last year. This is -- it has to be mentioned, but it's not where it needs to be at. So we have a tremendous focus in making sure the experience gets there, not only increasing the number of agile teams with customer focus but also eliminating barriers that prevent them to be as productive as they can be. We want to unleash the full potential of these digital teams, so there are teams in infrastructure, there are teams in culture that we still have to do, and it is our priority.

Also related to that is our team, developing the team to support the digital strategy and the agile execution. This is of paramount importance. So we are attracting, retaining and developing people with a digital mindset and we'll have all the capabilities required, there are technical capabilities, there are customer driven capabilities, there are health capabilities, so we have to attract, retain these people, and we are doing that well, but we want to intensify this. This means hiring outside specialists when we don't have the skill at home, this means leveraging the people from the acquired startups to provide some parts of the job. And finally, changing the culture internally, supporting our current employees for developing new competencies and adapting to our new culture.

And finally, we want to advance in sustainability. We are improving the reporting of sustainability, providing more transparency in the upcoming 2020 annual sustainability report. We will this year unveil our 2030 commitments and goals, detailed ones that we'll start tracking regularly, and we are already working on the strategies to drive both our aspiration and to drive those goals.

So those are my prepared remarks. Let's go to Q&A. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Mr.Joseph Giordano from JP Morgan would like to make a question. You may proceed.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hello and good afternoon everyone. Thanks for taking my question. I have a question here concerning the expansion plans for the company's concrete market leadership in new regions. So my question here is, how do you see the potential saturation in terms of stores in the main markets you operate, which, as you know, like in the Northeast region, but I'd like to hear from you, how do you see that playing out regionally, particularly in light of expansion plans being announced by your main competitors? And the second aspect is what do you think about digital and actually like the New Pharmacy model that you guys are developing? How do you think, like, the digital platform should help you to have more flexible store models and actually expand materially your addressable market on top of like the recent initiatives into more, let's say, popular shops. Thank you.

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

Okay. Joe, thanks for the question. I mean, the first thing is understanding our market shares. So if you look today for example, in the state of Sao Paulo, we have a -- which is our native market, where we -- where we have two chains, both Bahia and Sao Paulo coming together, we have 27% of share. In the city of Sao Paulo, it is already more challenging, so because we measure -- let me be clear here, open a store, selling 600,000. 700,000 is easy. Open a store, selling 600,000, 700,000 and making sure that they can -- they are marginal sales, they are not cannibalized sales. This is the challenge. Very often you can open 600,000 stores and when you realize we're adding just 400,000 and then the 400,000 the returns are not what you think they are, because the other 200,000 is cannibalized, it's just an example. So, we have tremendous control of cannibalization. We measure cannibalization. We project cannibalization for every new store. So, we know in Sao Paulo the neighborhood is where we can still grow and the neighborhood in which our presence is already very densified, and which is not safe for us to grow now.

In longer term, as the market keeps growing even in neighborhoods like Jardim Guarani [ph] we have more stores, but now we have to follow the expansion of demand, the age of the population, so we have to be more careful. But we still have a lot of opportunities outside the city of Sao Paulo, even in the -- if you look at (inaudible) Sao Paulo, they are bigger than (inaudible) region, in a region like ABC here, close to Sao Paulo, they're way bigger than us. In others we are bigger, but we still have room to grow, in the countryside there are a lot of places where we can still increase our share. There are new cities that are opening up for us every day as they keep growing and as our model gets more flexible. Not to mention that I'm talking Sao Paulo 27, outside of Sao Paulo our highest share in the Midwest was 18%. When you look at market like Southeast, Northeast we have below 10%. Northeast -- North we have 6%, so there's a lot of opportunity still for us to grow.

The only thing is that they may not be as much in the capital as they were before. They will be more -- they will be more in the metropolitan region, countryside and in other states. When I look at the expansion that other players are doing, I mean, I see an enormous entry barrier for them. As I mentioned before, we are swimming on the blue ocean because we have the brand seal all over the country and every market that we go today, the brand is well-know and we have experience going there. Competitors today, they have a red ocean when they go outside of their core market, because every market today is crowded in Brazil. It's too late for organic growth in my view, if you don't have the brand already there. And in their existing markets, I mean, they have a much high -- we're talking about much smaller markets than Sao Paulo in which they have much higher shares than we have in Sao Paulo, in which there is more -- way more stores than we had in Sao Paulo.

So, I mean, for me, history repeats itself. We saw everybody accelerated growth, destroying value, having to stop growing, having to close stores, trying to fix and trying to tell the market that now they've learned their lesson. We never had to do that, because we measure every step we take here. We measure cannibalization and we do things because we believe, not because the market demands or because my multiple depend on that. So it's a completely different thing.

Having said that, obviously, I think with the recent (inaudible) there will be an expansion -- there will be an increased expansion by competitors. So this is very clear for me, but I think overall it's a balanced -- it's still a balanced scenario. When we look at -- obviously today we are almost growing alone. For several quarters we have opened ourselves more than the sum of all the others in terms of new stores, manual stores. So -- but now with the IPO, there'll be more stores coming. When I look nationally, this is not a number that scares me. I think we're probably going back to what we had '14 '15 '16 in which there was a lot of activity in the market. Let's now remember, back then DPSP was opening 100 stores, Brazil Pharma still existed, was opening a lot of stores and many other players opening stores. So I think it's a similar situation to that very far from what we saw in '18 and '19 in which the numbers went overboard, (inaudible) was opening 180, Sao Paulo 130, and many other players doing numbers that prove to be unsustainable and then in the end they had to stop growing, closing stores and trying to -- and just now trying to grow again.

So, I'm not worried, overall, because I think the numbers are balanced out. I don't know if they'll be successful or not, time will tell. But if they overdo at home and if they have to fight into the outside, then I tell it doesn't work. But for us, I mean, that's not a concern. Obviously there could be regional issues. So, you think about the South, for example, we are growing in the South. There is more players growing, there is two more players with both expansion plans in the South that are not the player trying to do -- grow in the South. So it's possible that something an unbalance like '18, '19 happens in the south. But the south is 10% of our (technical difficulty)

Operator

Ladies and gentlemen, please stay connected. RD conference call will return in some minutes. Ladies and gentlemen, please stay connected.

A - Fernando Spinelli

I think we can continue. I can -- we can -- I can take over (multiple speakers) Okay. Thank you.

Operator

Okay. Our next question --

A - Fernando Spinelli

Hold on, just one question, I think Eugenio is back, right? Is he back?

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

I'm back, sorry. I was dropped.

Operator

Okay. Our next question from (inaudible). You may proceed.

Q - Analyst

Hello, are you able to hear me?

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

Yes, yes, please

Q - Analyst

Okay. So thank you for taking my question. Good afternoon. We just have two questions. One about Healthbit. Healthbit, you already explained a little bit during the call. But if you could share more details with us, and especially focusing about the synergies part that we might see between Healthbit and also RD core business, it would be great. And the second question about the new store format about the Health Hub, also if you could share more details about this new store and new format. It would be also great. Thank you.

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

Okay. Well, thanks a lot for the question. I mean Healthbit is a slightly different acquisition than the other two because other two are B2C models that they're very clear where they're plugged. One is another vertical to the marketplace, the other is the journeys to support the health platform. In the case of Healthbit, Healthbit is a company that works with middle-sized, mostly large companies to help them manage their health costs and improve the health of their employees. So they are an advisory company. What they charge the company is services. So they look into the medical expenses. They see opportunity to save money. They develop programs to improve things like endurance of the treatment, things like tracking high-risk patients, programs for pregnant women and things like that.

So they are an independent partner of the company to measure the health cost because obviously when you think about the health insurer, the health insurer is an interest party. The highest the billing the best. So they help the company understand -- open all the bills presented by the health insurers understand where they're spending money and how they can save money and how we can improve the care they provide to the employees. So this is what they do.

In our case, I mean, first, there's an obvious synergy with Univers. We already have relationship with something like 1,000 companies in Brazil. Univers is a leading PBM in the corporate sector in Brazil. So, we have a lot of companies to which we can introduce Healthbit for them to advice and the Healthbit, most importantly, can happen -- can help us develop new solutions to improve the health of the employees of these customers. So, by -- to-date, what we invest there is just a discount problem -- different products. With the advisory at Healthbit, we can develop innovative health solutions. Maybe they can involve for example the Health Hub. They can even involve tech.fit and the journeys. So in a way, it can be a potential gateway for the platform to go to B2B and not only to be B2C.

Regarding the Health Hub, we are starting to pilot. We have four stores up and running. Obviously, this is like a soft opening. They're not fully operating. There are a lot of adjustments to be made, the apps are not still fully integrated. But we already -- we already have four units from which we are learning. Our idea is to consolidate the model this year and to be able to expand through the year and start offering more and more services. So Health Hubs have -- they do services like vaccine shots, like flu vaccines. They -- COVID testing has been the main one we have done up to now as I mentioned 1.5 million COVID testing. There are other sorts of tests, we can measure blood pressure, we can measure glycemia, and a lot of services to support and certainly at some point we will have telemedicine in the Health Hubs. So the Health Hub will be very important going forward.

Q - Analyst

Okay. That's very helpful. Thank you.

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

Thank you.

Operator

The next question that comes from Mr.Guilherme Assis. You may proceed.

Q - Guilherme Assis {BIO 21406331 <GO>}

Hi. Good afternoon, everyone. Thanks Eugenio for taking my call. I have a follow-up question, I think regarding the Health Hub but more specifically about the vaccine part, right? So we're in the middle of the pandemic and the vaccination schedule has been like an ongoing concern in Brazil. Is there anything or any part of RD operations that could benefit and help in Brazil to go forward with the vaccination schedule for COVID or do you think it's too late for that? I know there were some talks at Abrafarma to use like the whole Abrafarma store network to do that. How has that evolved, Eugenio? Is there anything that has been done or that should that will be done in regards to helping the COVID-19 vaccination schedule in Brazil?

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

Sure. Well, thanks for the question. And the honest answer is that it's too early to tell. Well, I mean, our aim here, so we look at COVID vaccination not as something that we want to benefit from or make money from, rather it's the opposite, Abrafarma offered the government federal state municipal to do vaccinations at our stores for free, the zero fees, zero profit. Obviously, they have to supply the vaccine. They have to supply the syringe, the needles, and everything that's required. But we will provide the service for free. We have -- in Brazil, according to Abrafarma something like 4,000 to 5,000 stores that we could use for public vaccination, and this could help accelerate the public schedule. So this is the aim. There's no individual action here, it's all through Abrafarma with the spirit of helping the country, accelerate the process.

Today what's happening is that the first -- just a step back. The first thing is that Brazil already has a pretty good vaccination infrastructure. Brazil has always had a very strong public vaccination program. So, Brazil is probably more equipped than other countries to start with the vaccination. The problem that we have is the delay in securing the vaccines for various reasons that you know. So the number of vaccines available today is still very limited and because the number is limited, right now, I don't think the government needs us to be able to apply those in -- their immunization with the vaccines available. I think we'll go to just to reach a point in which there will be more and more vaccines coming as the global shortage problems get solved.

So, every schedule for every country, it starts very soft in the year then it accelerates about March, April, May and in Brazil, it looks like it will be like that. So right now it doesn't make -- we have offer, but it doesn't make sense because it's so many has sold. The amount of vaccines available is still so limited that the government can tackle on its own, but we could get to a point in which there is more vaccines than pace of vaccination and this is where we believe we can create value. So, we maintain our conversations with the several instances of government, but nothing is defined as of yet.

Q - Guilherme Assis {BIO 21406331 <GO>}

Okay, that's clear. Thank you. Eugenio.

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

Thanks, Guilherme.

Operator

Our next question comes from Mr.Marc Mardini [ph]. You may proceed.

Q - Analyst

Hi Eugenio, hi everyone. Good afternoon. Thank you for taking my question. So if you could give us an update regarding top-line growth perspectives for 2021, especially in the short-term with the increase in restrictions due to COVID-19. And also what to expect for the year with the possible economy reopening? Thank you

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

Marc [ph], thanks for the question. I mean what I can tell you is what I see until now. We had a very good fourth quarter and we started the first quarter in the same pace. So if you look today, if I had to publish my first quarter today and maintain the same momentum, I think it's a good quarter as well, no doubt about it. But the thing is the restrictions are exactly kicking in as we speak. Sao Paulo is likely to put more restrictions, I think. So we don't -- it's very difficult to imagine how this will pan out. I tend to think that we have enough cushion and given we are in mid-March kind of that, I mean, I think it still should be a normal quarter even for some reason we see a softening by the end of March, but then for the second quarter, I don't have a clue.

I don't think we will ever go back to the second quarter last year, because people learned to live with the pandemic. So this problem we have today the second wave, it's not happening because people are going to the pharmacy or to the supermarket, it's happening because people are partying, people are agglomerating and things like that. People I think they have learned that if they use a mask, they can go and they use hand sanitizers and maintain distance et cetera, they can go to the pharmacy and supermarket. They can even go to work on a relatively safe basis; obviously, there's no zero risk.

But -- so even if we see a very, very strike social isolation, I tend to think it to be better than the second quarter, but I don't know if it would be something like the third quarter in between the second and the third, slight above the fourth then at this point it's a guessing game. But whatever happens, it'll be temporary and will have to resume. So we're not worried, because the most important thing now is fighting the pandemic, is doing whatever it takes for -- to prevent that, to maintain people healthy. If you need closing stores, if you need less people in the store, so be it. We have a very robust capital structure to navigate whatever we have to navigate. So, we're not concerned with the short-term and nothing changes in the long-term.

Q - Analyst

Perfect. Thank you.

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

Thank you.

Operator

(Operator Instructions) There appears to be no further questions. Now, I'll turn the conference over back to the company for the final remarks.

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

Okay. So, first, thank you all for attending this conference call. Thank you all for your support as long-term shareholders for the company. I'll try to summarize some of the points we discussed during the conference. The first is the point that 2020 is a landmark year for the company. On the positive side, I mean, I think we unveiled a new and very bold aspiration of being the company that most promotes access to a healthy life in Brazil, we unveiled to the market, the strategy to accomplish that which is based on three elements, New Pharmacy, Marketplace and Health Platform. And we have been working on this strategy for at least one year.

So, when the -- I think the other aspect of the year and that's also the negative aspect is the pandemic, that has been a huge health challenge for everybody around the world. And for us, it was different, and it has economic repercussions. But the fact that we were already working on this New Pharmacy strategy allowed us to adapt in a much better way than if the pandemic have happened one, two or three years before.

So, a lot of things were already in place. In terms of infrastructure, we were able to move fast in terms of adding new services like neighborhood delivery, and in terms of doing everything we did to support the customers, to support our own people, et cetera, et cetera, et cetera. So our focus right now is on the New Pharmacy. As I mentioned, Marketplace and Platform are almost fully digital businesses. We're not acquiring customers through Google, Facebook, any of that. Our people are coming from the New Pharmacy, the stores who acquire the customers who does digital onboarding of the customer, hosting these new businesses. So this is absolutely the priority we have, and again we were already working on them and the pandemic accelerated tremendously this process.

We did in the year BRL1.2 billion in revenues from digital channels. This is four times more than in the previous year and this helped us a lot mitigate the financial effects in the business. So, in the end when you look metrics like profits, like EBITDA contribution margin, they all grew. Obviously, there was some margin contraction, but I think it was a modest one considering the proportion of the challenges we face and in the fourth quarter as normalization happened, so we thought we'll see if it happened or not, we are able to have a very strong fourth quarter firing on all cylinders in terms of EBITDA margins, revenue growth, contribution margin et cetera, et cetera, et cetera.

And we will keep driving this strategy accelerating the New Pharmacy. Experience is a very important concern for us. I think we provide a reasonable experience, but it's not on par with the stores and it's not on par with benchmarks like Magalu, MELI, Chispra [ph] and others, that are customers are used to. So the whole journey of the company's getting there. This means more agile teams. This means removing bottlenecks structural infrastructure for the teams to do that. This means changing the culture of the company having people have more digital mindset, bringing the talents who had new confidence from outside, helping our people adapt to the new culture, leveraging startups, RD Ventures for us to be able to instill this new culture. And but again, this is a transformational journey for the company. This expands our sales market from pharma retailing to healthcare at large, and this allows us to provide a much better experience for our customer overall and service a way broader array of needs. Just like in digital, digital is a means of an end. We don't have digital, because of the digital channel. We have digital as a means to increase loyalty engagement et cetera, that shows up across every channel. So we're gaining 20% more spending from the customer by having digital, but part of this marginal spend happens in the store as well.

The same will happen with the other businesses. It's wrong to think that marketplace is only a business on its own, that the platform is only a business on its own. They are very highly synergistic, not only the customer comes from the new pharmacy to the other businesses, but when the customer starts buying things from the marketplace and enjoying services from the platform, the overall frequency will grow even more, the overall spending will growth even more, the value creation will grow even more.

So this is a transformational journey for us, a transformational journey for the health of Brazilians who today suffer from a system that is focused on treating the disease and treating the disease in the lowest cost possible and sometimes low quality as opposed to preventing disease and promoting health. So this is our mission. This is what we'll accomplish. Thank you all and we are available directly for any conversations. Thanks.

Operator

Closing and disconnecting.