Q2 2015 Earnings Call

Company Participants

- Belmiro Gomes, Cash & Carry Officer
- Christophe Jose Hidalgo, CFO
- Daniela Sabbag, IR
- German Quiroga, CEO
- Libano Barroso, President
- Marcos Batista, Unknown
- Ronaldo Iabrudi, CEO
- Unidentified Speaker, Analyst

Other Participants

- Alan Cardoso, Analyst
- Andrea Teixeira, Analyst
- Fabio Monteiro, Analyst
- Franco Aberlardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Joao Mamede, Analyst
- Richard Cathcart, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Ladies and gentlemen. Good morning. And thank you for waiting. Welcome to GPA conference call, to discuss the results of the Company for the Second Quarter 2015. This event is also being broadcast via webcast, which can be accessed at www.gpari.com.br, with the respective presentation.

Slide selection will be managed by you. There will be a replay facility for this call on the website. We inform you that the Company's press release is also available at the Company's IR website. This event is being recorded. And all participants will be in listen-only mode during the Company's presentation.

After GPA's remarks are completed, there will be a question and answer session, when further instructions will be provided. (Operator Instructions) Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996.

Forward-looking statements are based on the belief and assumptions of GPA management. And on information currently available to the Company. They involve risks, uncertainties. And assumptions, because they relate to future events. And therefore they present 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 floor over to Ms. Daniela Sabbag, investor relations officer at the Company.

Daniela Sabbag {BIO 18861490 <GO>}

Good morning, everyone. Thank you for participating in GPA's earnings conference call. We will begin presenting our results. Ronaldo will make an initial presentation, Ronaldo Iabrudi, our CEO, then Christophe will present the main highlights for the quarter. And then we will turn the floor to the business owners who will speak about the performance of the respective units. Ronaldo, over to you.

Ronaldo Iabrudi {BIO 5151863 <GO>}

Good morning. Thank you, Daniela, the investor relations team. And all of you who are joining us in this conference call. We do not have Lojom [ph] with us, he is on holidays. But we have Marcos Batista [ph], who will be speaking about interest [ph]. And Peter is also on vacation. But Christophe, myself. And Salvador can answer your questions more related to planning. So we'll be here for you.

The results that we are about to present in each one of the business units derive in our view from this Company's dedication to in a difficult year, like this one, which has been more difficult than we expected. So this Company's dedication to seek sustainable growth. And in a very comforting way for us, because it is very much in keeping with what we had before.

So the performance is not optimal, it's not ideal. But it's very much in keeping with what we planned. In several of our meetings and calls, we have told you that the Company has been trying to adapt itself to this new macroeconomic environment, to the new macroeconomic scenario.

We have two important areas of focus. One, which is implemented. And we are already reaping the fruits of this work, i.e. it is the work that we are doing to cut down expenses, our integration projects, synergies that we've been capturing.

We worked a lot in 2014 in that direction. But you will remember that we had a number of things that we had planned for 2015. And that we are implementing. So this is a more internal work front at the Company. And we're mobilizing the whole team to work strongly on that.

And as another front, another work front we are following the same way, which is the sales performance execution plan. As you know, we have different business units. And you can probably see distances among the businesses, which I believe that there is a trend which allows you to see the performance of each business unit, how fails are evolving.

And in our opinion, we are in a positive position, because again, we are aligned with the original plan. It was even more rigor and even more detail. We continue with our expansion plan. In the beginning of the year, we talk about our expectations.

Even in a challenging year like this one, to have an important growth. And we're working in that direction. You're going to see the presentation about Mini Mercado. Belmiro will be speaking a little bit about that, Libano spoke about that yesterday.

Nova is also expanding significantly. Now obviously the cost of capital in Brazil, as it is currently, we have to have a lot of rigor and responsibility in assessing and approving our investments. So we're being even more diligent, we're being even more rigorous so as not to make mistakes regarding our investments.

Our plans for expense reduction and optimization is also a key priority area for us across the Company. We started very strong. And we talked about this in different conference call of the year. And I want to stress that again in this one that we have the costs, sales declined more abruptly the Company has to adjust. But it does not adjust that quickly.

So we have elaborated plans, they are being implemented, they have been implemented. And we already see important results being derived along this quarter, we'll be reaping other important fruits in the coming quarters, in the second half of the year.

In food retail, that is always a concern, if we think specifically about Extra, we continue, just like we said last year, we continue with our plan to modernize the stores, we're working on the product assortment at the stores.

Along this quarter, we had a number of renovations in hypermarkets and Extra stores. Marcos will be speaking about this. Even this month, actually even this week, 25 new renovations of supermarkets were delivered. And this work at Extra; I'm using Extra because it is an example that always comes up in our discussions. And since last year we've been talking about those.

Extra continues to deliver the results as expected in the plan. I perfectly remember that in the end of last year, we were talking about the actions we had carried out in the state of Sao Paulo. And that we were rolling out for Rio de Janeiro, midwest. And the northeast.

And that we expected that in the Second Quarter of this year, we would have a positive customer traffic at stores.

Well this is what we expected then, it is now a reality. Also, for extra banner [ph]. As for the Proximity forment [ph], Ronaldo will talk about this. We continue to expand organically with a lot of diligence, with a lot of rigor. But we continue to expand organically. And by year end, we should have more than 300 units in this proximity model.

An important point is that at this market moment, it has been somewhat easier for us to find locations for Minuto Pao de Acucar, which is a format that has been extremely successful with profitability and return on investment, which is even faster than Mini Mercado.

So we are concentrating in Minuto Pao de Acucar. By year end, we expect to have 30 Minuto Pao de Acucar stores. Assai, Belmiro will speak about it. Whenever I talk about Assai, I'm always very pleased, because it is a winning concept. You just have to visit a store. And you'll see it's a winning concept.

We're very focused. And I believe we're going to have record growth in terms of number of stores in the second half. So you know, this is (technical difficulty) Quiroga and his team have been growing. That makes us very pleased. What we are feeling more of an impact. And this is not the first time or whenever, we need; we think about Via Varejo furniture, electronics. And home appliances, this is a sector that suffers more at a difficult moment like this. It is a less resilient sector.

But Libano and his team presented their earnings yesterday for you. I'm sure that most of you participated in yesterday's conference call. But they've been implementing various measures, both in terms of sales, profitability, cost control. And internal synergies, to ensure the Company's result along the year.

So I will now turn the floor to the different business units. So that they can talk about their own unit. Christophe, as Daniela mentioned, will start speaking about the main figures. And I would just like to highlight what Christophe is going to clearly talk about, the capital structure.

But the Company continues to be very focused, very prepared to go through this difficult moment of the Brazilian economy. If an opportunity comes up that fits the Company's strategy and that means increasing shareholder's value, the Company is in a good position to move in the direction of enjoying a good market opportunity. I'll finish for now, in the end I'll make final remarks. But I'll now like to turn the floor to Christophe.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Ronaldo. This is Christophe. I would like to begin today's presentation with the main highlights of the Second Quarter, which you'll find on slide 2. We'll start sales. Our revenues totaled BRL16.1 billion, up 6.6%. And 7.6% in the food segment.

Via Varejo plus Assai and 5.3% in GPA non-food, which includes Via Varejo and Nova. In this quarter, we had important market shared gained, particularly in Assai and Nova. But also in Via Varejo and Pao de Acucar. And we come from an important recovery trend that we had in the last two years, that was for Pao de Acucar.

Multivarejo closes the first half of 2015 gaining market share despite the pressure that we see on sales. And is also the comparative basis with the World Cup of last year. And with the pressure because of the economic environment and the Extra banner, we see the competitiveness that policy, administrative, commercial dynamics.

These will allow us to recover customer traffic and goods sold. These indicators became again positive in the Second Quarter of 2015. Another highlight is that we confirmed the resilience of our foot [ph] segment with the same store sales, which sequentially remained at 4%, compared to the First Quarter '15, EBITDA margin of Multivarejo of 7.3% of net revenue. And a special highlight to a robust EBITDA growth of Assai of around 17%.

At this moment, a very difficult economy, it is important to highlight our ability to strengthen our capital structure, increasing our cash reserves to BRL6.8 billion, in other words BRL1.4 billion more in cash. In this period, we remained a strong policy, strong engagement, which translates into long-term organic growth.

We had BRL470 million invested in the period. Investments in this could increase to 51%, with 236 stores opened in the last 12 months. And 50 stores in the last quarter; in this quarter. We implemented a strong program of store remodeling renovation, focused on hyper, Extra. And Pao de Acucar.

Lastly, before we go to slide 3, I would like to stress that we implemented expense optimization initiatives across our businesses to adjust the Company's expenses. And so that the Company can adjust more to the current reality. Please go to slide 3.

As in the previous quarter, on the slide we show you comparative figures. In other words, excluding the effect of Cnova's first international operations. In this context, despite the mixed effect on gross profit, we were able to maintain a relatively stable growth of profit, 7% of net revenue.

In the same period, we generated an EBITDA of BRL803 million. It declined particularly because of the pressure moment that impacted the Via Varejo's performance. We adopted some initiatives to reduce expenses along this quarter. And along the first half of the year. The effects haven't been totally captured. But still, the food segment was able to achieve an EBITDA margin of 26.3% -- or 6.3% in the quarter.

Slide 4, please. This year the main financial performance indicators for the Company, we can observe that we maintained our discipline in managing our financial resources. In the period, working capital improved by 12.5 days, i.e. the capital inventories and supply has increased from 0.2 days to 12.7 days, a financial gain which amounted to BRL1.6 billion.

The Company continued to significantly reduce its debt level. Net debt over EBITDA ratio fell to 0.4 times from 0.7 times. Still in the financial results in this quarter, as we can observe in recent periods, I underscore the fact that for yet another quarter, the increase in our financial results remained below the CDI [ph] increase in the period, 22%. Our financial results increased by 14%. Again, we maintained a financial expense of 2.6% of our net sales.

Please move to slide 5. Before I give the floor to the business owners, I would like to quickly comment on the key highlights for the food segment. I would like to remind you that the food segment for us includes Assai, Extra, Pao de Acucar. And Proximity stores, in other words Minuto Pao. And Mini Extra.

Multivarejo, as I mentioned before, despite a very challenging economic environment, posted a significant profitability level, at a level of 7.3%. Assai has been sequentially showing a solid performance, maintaining its margins, which remain similar to last year, double digit.

The quarter was also marked by a significant number of new stores opened, totaling 141 new stores in the last 12 months. Not to mention that we dedicated an important CapEx for the modernization of Extra, Pao de Acucar. And some of our older Assai stores.

I now turn the floor; I now finish the part about the food segment. And I will now turn the floor to Elijio [ph] for his comments about Pao de Acucar.

Unidentified Speaker

Good morning, everyone. The Pao de Acucar banner achieved resilient sales performance, around 6% growth, in Q2. We had the adjustment for the calendar in fact, despite the strong comparison base with the Second Quarter of 2014, in which we grew 14.9%.

The market share gain, according to Nielsen, remained stable, with 26 consecutive months of growth. We keep on paying a keen attention to the banner's compacted in the premed [ph] segment. This quarter, our inflation was lower than the rate for the segment according to Nielsen.

We've maintained successful commercial activations like the weekly top 10, the new magazine Pitades [ph]. And had a very good performance in seasonal dates like Mother's Day and Valentine's Day. Our loyalty program, Mais [ph], reached 63% of our sales share, allowing the Company to better identify consumer behavior.

We keep on focusing on the banner's differentiators. In Brazil in the Third Quarter, we had the exclusive launching of Aussie, a hair product line, Miller the beer. And Nestle's gelato ice cream. The French Boulangerie launched in Q1, has performed really well.

Pao de Acucar saw delivery operation continues to post double digit growth, increasing volume. And gaining new customers. This quarter, we fully remodeled 5 stores. And completely revamped 33 smaller stores, working on more than 80% of our whole group of stores over the last 12 months.

We'll open 5 new stores this year, 4 in the Third Quarter. And 1 in the last quarter. The stores converted in 2014 already show higher sales vis-a-vis extra space and higher profitability. Like Christophe said, considering the challenging year ahead, we keep on focusing particularly in competitiveness, selling expenses. And a review of our assortments in key categories.

The purpose is to maintain our profitability vis-a-vis the previous year. Now I give the floor to Hanna [ph] to thank you.

Hello. Good morning everyone. I'll be talking about Proximity. It keeps on growing very strongly. The Second Quarter, 56.6%. Positive and above inflation rates, the same concept applied to the World Cup. Market share gains continue to happen, competitive gains and also price margins today, we are working with different price levels compared to last year.

Like for like and generation of new tickets. We closed the quarter with 288 stores, 250 Mini. And 30 Minutes. 31 store openings this quarter, 24 Mini. And 7 Minuto. Sonjas ad discampos [ph], with the Minute format in Assai is the first aid after Sao Paulo.

We started with 2 Minuto stores. And 1 Mini store. And we also started at the end of the Second Quarter a very innovative project of a pop-up store in Campos Donjeas [ph] for the winter festival in late July. And we are going to have a strong focus on our brand positioning.

We have 10 [ph] conversions all together, 2 conversions from Mini Mercado to Minuto. Minuto is a model that is very much adjusted to the ad cluster [ph]. And results are above the expectations. And for other conversions we have an increase of more than 40% sales.

Another challenging scenario like Ronaldo mentioned, we are focusing on Minuto store openings. We have been managing to find more locations to rent in adi social brackets, with more convenience and high purchasing power.

We have a dedicated DC [ph] and we are working very strongly on the productivity of 2 DCs. We have 2. And we are thinking of gains this quarter of 75% quarter on quarter. The calculation of traffic that goes through our checkout and our headcount.

So we have significant cost reduction, very much controlled in the dedicated AC. And this quarter we are working at lower than 7%. And in the second half of the year we want to go lower than 6%. We keep on working in cost reduction and increased productivity in all our expense lines.

And also administrative costs. And we're also moving forward in strong rental negotiations. We closed the quarter with a reduction of 15% by year end. And another 50% of the stores. So in the Third Quarter, we are negotiating more store rentals. Thank you, now I give the floor to Marcos Batista for the Extra banner.

Marcos Batista

Good morning, everyone. The Brazilian macroeconomic scenario remains quite challenging to Extra, however we are beginning to see a recovery in sales volume and customer traffic, thanks to enhanced competitiveness. And also more assertive commercial dynamics. And also our store renovation efforts.

In terms of our stronger competitive edge, I'd like to highlight the Company's agility to make decisions about price. And better monitoring of our assortment, particularly in basic staples, which enhance the perception of unbeatable competitiveness by our customers.

The revamp program for Extra stores achieves 24 remodeled stores, 22 are hypermarkets. And 2 are supermarkets, which already give important signs of recovery in same-store sales. By the end of July, the revamp program, like Ronaldo mentioned, will have delivered another 25 stores in the supermarket format, spread all over Brazil, totaling 49 stores revamped.

For the second half of the year, our roll out plan includes the delivery of another 60 revamped stores, approximately 35% of our sales. Please note that in 2015, investments in store renovations amount to BRL100 million.

The main drivers of these renovations include number one, unbeatable competitive edge with aggressive commercial dynamics, in all aisles. And as I mentioned before, focused on staple foods and products.

Number two, product assortment adapted to consumer's profile with a strong share of exclusive brands, or private label brands. And price first products. We currently have more than 3,000 SKU's available. Improvement of the level of service, particularly perishables.

The sales area was fully renovated with simple, modern. And standardized communication. And lastly, a qualified team of employees to cater to our customers' needs. In addition, I'll highlight again our relationship tools, like Clubi [ph], Extra's loyalty program, which has nearly 6 million customers enrolled. And also the Extra card, which has boosted our sales with exclusive commercial dynamics spread over weekdays. One of these examples is the meat day on Tuesdays.

This quarter we also increased the number of Click & Collect stations. With this service, our customers can buy products on Extra's website. And pick them up at conventional stores. They total 233 stores, strengthening GPA's multichannel positioning, generating customer traffic to the stores.

All these points that I mentioned are evidence of the recovery of our sales dynamics and customer traffic to Extra stores. Thank you. And now I give the floor to Belmiro.

Belmiro Gomes {BIO 18107864 <GO>}

Thank you, Marcos. Good morning, everyone. Like Ronaldo and Christophe mentioned before, the Second Quarter shows the continuity of the strong growth of Assai business. This quarter we posted growth of 26% in gross sales, BRL500,000 additionally in sales strongly contributed to GPA foods growth.

This performance stems mainly from the strong growth in same-store sales basis. And also the store openings in the second half of 2014. And First Quarter of 2015. Sales increase in the Second Quarter, which is more challenging, is in line with the First Quarter, 26.3% [ph].

The new stores openings in the First Quarter also put pressure on our gross income, which is nearly in line with the previous one, with 0.1percentage points year on year. The biggest impact this quarter stems from the increase in costs with electricity.

In some locations, in some stores, we had 50% vis-a-vis the previous year. And several actions that minimize the impact of these expenses, maintaining Assai's expenses at 10.7% of sales, which is critical to a low-cost business characterized by Assai, increasing 17% increase in expenses.

The constant growth of Assai also allowed us this quarter to have significant market share gains, over 2percentage points. We've been strongly investing in competitiveness, particularly partnerships and funds stemming from better negotiations with suppliers, in order to expand our base supplying many and small companies.

Considering the more challenging scenario right now, we feel a strong impact on the food service segment. And the bulk of operators, snack bars, pizza places. And restaurants have Assai as a strong supplier. On the other hand, the segment also has stronger surge by end users for the low price of the model, generating significant increase in customer traffic in our stores.

Considering the first and the Second Quarters we have 26% growth in sales, 27% gross income, 27% expenses, going up or progressing 2.3 in EBITDA. For the Second Quarter and second half of the year, as Ronaldo and Christophe said, we expect to strongly maintain our growth, particularly opening new stores.

Right now we have 7 new units under construction, 7 big units for the new model. And the 7 stores that will open as of August. And by year end they will add approximately another 40,000 square meters of selling area, located in extremely prime locations, where we have a lot of expectation. And they will contribute to strongly maintain our solid growth in Assai, as we've been posting and expect going forward.

Thank you very much. Now I give the floor to Libano Barroso from Via Varejo.

Libano Barroso {BIO 4670536 <GO>}

Thank you, Belmiro. Like Ronaldo and Christophe mentioned, the short term scenario is quite challenging, with brief and fast changes in consumer profile, consumer confidence. And at the end of the day, according to PMC, we had a fast deterioration in our sales between March, April. And May.

In this scenario, we made adjustments, short-term adjustments, maintaining our vision and our structural plans in the long run. This quarter, our net sales was BRL4.3 billion, EBITDA margin 5.8%, BRL249 million.

The group of stores is 1,047 stores. We opened 21 stores this half of the year, 95 for the last 12 months. And 109 stores since January, 2014. Our market share gains year to date from January to May 2015, despite the challenging scenario, was significant.

Like I said, EBITDA margin was affected by the lower decrease of fixed expenses. There was a delay between adjustment of expenses. And a drop in sales. Considering all the measures we implemented. And as of the Second Quarter. And including all the whole cost structure, adjustment to headcount, optimization of rent of expenses, freight and marketing expenses. And closure of 19 under-performing stores, we believe in upcoming quarters we will adapt to the cost percentage vis-a-vis our sales, according to the Company's track record.

Of all the key projects, we had a roll out of Crescer Mais project. Today we already have 45 store-in-store format stores for telephony, in which customers can try out the products in the store. And can activate, buy the product, buy the smart phone. And have the post-paid phone working.

30 furniture concept stores, in which the customer can benefit from the atmosphere, he can see the products displayed. And resell the full solution. And have it financed. And we have 30 banner conversions, from Ponto Frio to Casas Bahia, we previously had 6. And now we add another 30 conversions, in micro regions that have more loyal Casas Vaia customers.

With that, I give the floor to Quiroga, to talk about Cnova.

German Quiroga {BIO 17954249 <GO>}

Thank you, Libano. Good morning, everybody. Another quarter where we had market share gains in Brazil, 28 consecutive quarters. We have a level of over 20% GMV in this quarter, we had an EBITDA growth 26.7% in Brazil.

In terms of net sales growth of 17.5% in global terms. And 20% [ph] in Brazil. Marketplace share continues to increase in our operations, reaching 18.9% in global terms. And 8.9% in

Brazil. We also had customer traffic, which is quite relevant, 38.9% in global trends, 32.5% in Brazil.

It's important to highlight out relevant growth in the share of mobile access, which accounted for 36.9% of total traffic, 28.2% in Brazil. We also had a sequential improvement quarter on quarter in terms of gross margin and EBITDA margin.

We continue to be free cash flow positive. Our multichannel approach continues to evolve. I'd like to thank here the partnership with Via Varejo and GPA. Our Click & Collect network achieved 20,493 pick-up locations worldwide. In Brazil in these two quarters, we added more than 400 locations.

We had excellent results in our operating fronts and commercial front. Finally, I would like to say that we continue firmly in our strategy, with a team that works together with a great ability to adapt. This has been proven in the past.

We work with very low operating costs. This is one of the pillars of our strategy. And this is very relevant at this point in time. The team is more and more efficient. And we continue passionate about e-commerce. I'd like to turn the floor to our CFO for his final remarks.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Quiroga. We would like to finish this presentation giving some more detail about the initiatives to adapt our structure to the new macroeconomic environment. We have here some measures that focus on Multivarejo and Via Varejo.

We can summarize this to about 4 or 5 main points. Headcount optimization, we had a headcount reduction of about 7,000 people in the first half of the year. So despite our strong organic growth that we saw in the last two quarters, following a measure to adapt to the new economic context, we had to review the benefits of executives, renegotiate third party agreements. And optimize our media investments.

It is important to highlight that we have a presence in the media, which is equivalent to what we had before. But we have to reorganize our expenses overall. Also we revised our logistics expenses, particularly for the food segment. So we reviewed our logistics capability.

And finally we reviewed; we closed some unprofitable stores. And we'll probably close some more stores in the coming months. So this is strict expense control as we see on the slide. Now these initiatives did not have a full impact. The full impact will be felt as of Q3.

But we saw a growth of our G&A of approximately 12%. And this derives from the effect of the first consolidation of Cnova. With that G&A growth, a little, 5%, although we are capturing partly the effect of some of the measures taken. So we were able to grow less than inflation.

Although we did not capture the full impact of all of these measures yet. I close my part now. I will turn the floor now to Daniela, to prepare the Q&A.

Daniela Sabbag {BIO 18861490 <GO>}

Very well. We would like to move now to the Q&A session.

Questions And Answers

Operator

We will now open the floor for questions. We kindly ask you to make all questions at once at phone; just one question, please. And wait for the Company's answer. (Operator Instructions) Our first question comes from Mr. Joao Mamede, Santander.

Q - Joao Mamede {BIO 15265292 <GO>}

Good morning, everybody. I have three quick questions. We do understand why the sales performance is not improving significantly in this quarter. But once we turn the page, we should start seeing more towards the middle of the second half the positive effects of the reforms, the comparative basis will be more favorable.

So my question is, is there any granularity, or can you give us some color of sales for the coming quarter? Anything you can give us would be helpful.

Second question regarding gross margin in Multivarejo, this is one of the great positives of this quarter. We see some effects working in favor, better negotiation with our suppliers, a more favorable mix, among other factors. So my question is how much more can we expect from that business line?

Because we have seen on the other hand, more cautious consumers, not only buying less. But buying cheaper products. So it's a downgrade, which makes this improvement in gross margin even more impressive. So my question is; and it's difficult to give us figures. But how much more improvement can we expect? Anything will help us.

And finally, regarding Mini Mercado and Extra, one piece of information that drew my attention in this quarter was the high number of stores closed of Mini Mercado, which did not happen before. So is this a one-time off? Is it part of the natural mortality of retail stores? Or is there anything more specific in this quarter? Did you revisit the profitability of the stores? And perhaps choose to close them down, or what happened there? Thank you very much.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Hello, Joao. Normally we cannot tell about future sales, particularly in the current economic environment. I think that Marcos Batista mentioned that we continue with a strong program, add extra stores, to remodel the stores, we will be reopening 25 stores by the end of the month, more stores coming for the rest of the year.

So we are confident that what happened recently will be maintained. But we cannot give you any guidance, because you see, the economy is changing very fast and constantly. As for your question regarding the margin, well the Company's working on all balance sheet fronts. We work on revenue, cost, expenses. And margin.

Margin is one of the line items we see an opportunity in a moment like this. We're growing. Christophe mentioned we had almost 50 new stores opened in this quarter. Assai will probably post a record growth. So we do see an opportunity.

Customers see an opportunity, our suppliers see an opportunity to work with us. And that will allow us to have a more long term negotiation, which will be more effective, which is what we are pursuing. As for Mini Mercado stores, I think Rennato [ph] can answer your question.

But I can tell you that it is part of the game to open stores, to evaluate the stores, if they perform well, good, if they don't, you try to make some improvements which are allowed, improvements which we believe will help the stores to be profitable.

If they don't work, the Company's very rational. We are quite disciplined. And when I talk about financial discipline. If after some time of assessment, tests, improvements to bring the store to a profitable level, it all does not work, then we have to make a decision, just like Libano made a decision at Via Varejo.

Now if you ask me is this normal, I would say that at this moment of the Brazilian economy, what we are doing is absolutely normal. And it is a percentage of store closure which is within the natural, normal range of our investments.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you very much, Ronaldo. If I may, a follow up question regarding sales. I understand your remodeling plan and the improvements that will derive from that. But if you could; and it's difficult with an elastic economic scenario. I know that things will be changing overnight. And repeatedly.

What you're assessing of these remodelings, can you share with us how much the stores improved? I know that the first modernizations were in the least performing stores. So perhaps in these stores, the performance delta will be greater. But can you give us any color on the performance after the remodeling of the stores?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Well because of the fact that we are continuing a process, when forming, that we're going to renovate another 25 stores. And there's a third wave of remodeling. And a fourth wave of remodeling, this shows. And we measure everything as you know, this shows that we are moving in a very positive direction in terms of customer traffic at stores, ticket. And revenue.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you very much, Ronaldo, again.

Operator

Our next question comes from Mr. Franco Aberlardo, Morgan Stanley.

Q - Franco Aberlardo

Good morning, everybody. Thank you very much for the opportunity. I would like to speak a little bit about a drop in sales at the Extra banner. In the Second Quarter, we saw a decline of about 5% to 6% in sales of super and hypermarket of the Extra banner, which is a more marked decline than what we saw in the First Quarter.

You claim that there is an improvement in customer traffic and sales volume of Multivarejo, which includes Extra. So that leads me to believe that you are strongly investing in price at Extra. So let's understand, is this a fair statement?

And can this price effort be positive in the third and Fourth Quarter? Should we expect extra sales to resume growth? And why is it that we don't see this price aggressive approach in terms of gross margin? The gross margin is improving. But I'd like to understand in this gross margin improvement, is there any relevant contribution from the rental of commercial areas at Multivarejo?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Thank you for the question. Your question about the Extra banner, there are some relevant facts for the food segment, when we have the calendar effect, in the comparison with last year's FIFA World Cup, the net of all of this, the performance is consistent with the First Quarter.

It is coherent with the First Quarter other than the seasonality effect of Easter. So we can see for example beer sales that were very much packed to the World Cup. So in this comparison we were negative in the First Quarter, in the Second Quarter it became even more marked because of the seasonality.

And again, with this comparative basis with the FIFA World Cup, we can see for example a marked decline in the sale of TDX [ph]. So growth is pushed by the food segment. So separating the two businesses, GPA food performs with the same trend, supermarket have a performance beyond developing [ph] the calendar.

There's also the conversion of 9 stores that happened in the previous year, which are part of this base. Next of all of these facts, the two models in food have the same trend. And perform equally to the First Quarter.

Operator

Our next question ...

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Franco, let me answer your question about the margin. This quarter's margin increased from 60 BPS; increased to 60 BPS. By banner, we did not observe a significant variation. Margin growth in Multivarejo can grow a little bit more than the rest. So that's one.

Two, there's a growing contribution of commercial centers, or malls, that also increases our gross margin. And you also have to consider. And this was mentioned, that compared with 2014, this had a negative impact, given the FIFA World Cup. So we have a favorable impact, the rent factor. And we continuously negotiate with our suppliers.

Q - Franco Aberlardo

Thank you very much.

Operator

The next question is from Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Hello. Good morning, everyone. Thank you for taking my question. If we consider the future, in addition to the store remodeling that you already have, what about your capital discipline that you mentioned before, for investment purposes? And what about the opportunity to search for more locations?

You also mentioned that before. So we can that the macro environment is quite challenging. We also have these opportunities down the road, presuming competition can also have an impact. So considering this, could you elaborate more about your CapEx planned. And also your growth plan?

Do you have any idea, or any forecast for growth in area? And also CapEx in reals? Any plans for the full year. And also maybe for next year? Could you give us some color about that? And by the way, something that also happened last year is that you reduced your CapEx guidance. But you maintained the area guidance.

So what about the performance of CapEx per square meter? Do you think that you maintain this, or you'll have price pressure (technical difficulty) you expect CapEx to be (technical difficulty). Thank you.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Guilherme (technical difficulty) kinds of CapEx. We have (technical difficulty) what we do and what we see. Right now, in this economic scenario, when you think about Mini and rental areas that used to be more difficult in the past, now they have more adequate prices. And also a faster pace for renovation purposes, because things are more available.

Belmiro had never seen so many offerings of land as he has right now. And conditions are far more appropriate. Sometimes in the past, depending on the location, it was impossible to meet the amount asked. And now things are more feasible.

So overall speaking, when it comes to the organic approach, we see opportunities to keep on growing at a faster pace compared to what we had in the past in terms of square meters in 2014. And costs are also appropriate. I would say that we've been managing to maintain costs, despite inflation rates. You're all familiar with the inflation rates. So that's one point.

Second point, we're strongly focusing on CapEx for reopening renovation and conventional stores, like Marcos said. We're also considering assortment, store concept, more services. And we're also focusing more often in the customers internal route.

So we're trying to benefit from these tough times. So we can work on these investments. A comparison with 2014, well if we compare that, we're slightly above in terms of square meters. But I don't think this is the right time to give you the full picture.

This quarter. And upcoming quarters can be quite challenging. We start working in July. And we'll have a better idea by the end of the Third Quarter. But we keep on being confident that we'll manage to keep on investing organically. And like Christophe mentioned, the Company's capital structure makes us feel pretty comfortable to keep on believing in our growth potential, be it organically or with new opportunities.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you, Iabrudi. Thank you, Christophe. Now coming back to Mini Mercado. And to this format, you ended up by closing 3 stores, I think it also included conversions if I'm not mistaken. But is there any change to the format, any specific reason behind it, not only because Minuto format is selling more. But do you feel any need to change the Mini Mercado format?

Based on your assessment, do you believe the market is not giving you; or this model is not giving efficient return? So how do you see that. And what is the impact on the growth glan [ph]? In area it may not be so important. But in terms of number of stores, this is the highest number of store openings compared to your original plans. Has anything changed?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

The opening speed remains the same. We've made no changes. But what we're trying to do right now is to benefit from the market opportunities, upcoming opportunities, precisely during the crisis we are trying; or we are finding new locations.

When we speak of A, B, social brackets, in the past these locations were more expensive. And now we have discounts in old stores. And lower prices in new locations. Then you can have faster return. That's for strategy.

Now, about closure, store closure is a natural process for Proximity in our portfolio management. If you go for better store openings in models that are constantly evolving, that's what you do. And at the same time, you start closing stores that have been there for 4 or five years, or which are under-performing. And you focus on expansion allocation.

So this model has been working, we are still focusing on it. And our portfolio management, we are starting to work on better locations. And for stores that are not performing well despite our changes, we decided to close them. Change is the result of BU.

As to changes to the banner, we've been doing normal changes as we do in all banners. We have big sales, prices. And even adjustment to assortment. The First Quarter we adjusted our formats. We had 3 formats in Mini Mercado. And it's followed by pricing, communication. And also assortment.

It started in the First Quarter. And will continue until the end of the Third Quarter, with a whole assortment operation making it better and better adjusted to our target public.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you.

Operator

The next question is from Thiago Macruz from Itau BBA.

Q - Thiago Macruz {BIO 16404924 <GO>}

Hello. Good morning. My question is about G&A. I think there is a number of initiatives met by the Company to pursue more efficiency in this challenging top line. This quarter more specifically, G&A is going up in line with inflation. Do you think this might change by year end? Do you think your projects and strategies might begin to bear fruit by year end? That's my question. Thank you.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Thiago, we are focusing our efforts to make it happen. The focus is not only what to do. But the focus is on the speed to make it happen. It is crystal clear that this has to be done, this is part of our plans. And it's up to us to have the right pace, the right speed to be in line with your question.

But it all depends on more things. It is always a percentage of the sales, as you know well. So we work on the budget. And we revisit it on a quarterly basis. And we are paying keen attention to each and every opportunity. As you know, we always have possibilities. But giving you a number. And the certainty about this item, that's something we cannot do.

But we are moving in that direction. I'm confident. I believe the plans that we've been following up will lead us in this direction. But I don't want to make a statement here. I don't want to give any guidelines.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you.

Operator

Our next question comes from Mr. Tobias Stingelin, Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning, everyone. When I read this press release. And then I heard what was said about the performance of remodeled Extra stores, I think that recently it was mentioned that you are accelerating the modernization because it's going well.

But when we hear about modernization and remodeling of stores, growth seems to be expressive. But it doesn't seem that these stores are performing that well. So what I want to understand, regarding what you have planned, let's suppose you expected 10% sales increase in the remodeled stores. But you're getting just 5%, are you happy with that? Is it good enough? Or are the remodeled stores performing as planned? That's my first question.

And my second question is in the second half of last year, you started expanding violently your gross margin. Your gross margin expanded 200 basis points. This year we are going to have a difficult year compared to last year. So how should we expect the performance of the gross margin in the second half of the year?

And finally, Christophe talked about 7,000 people being dismissed. Is this consolidated including the 4,800 employees that were laid off at Via Varejo?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Thank you, Tobias, for the question. Looking at the modernized Extra stores, I'd like to remind you that we started remodeling back in May. And 6 of these stores were delivered. These stores are performing totally in keeping with what we planned for them.

First surveys pointed to a very satisfactory performance of these stores. Giving you numbers; well we can't give you exact, accurate numbers. But I can give you the same-store sales approach. These stores compared to themselves, grew about two digits on average. So they're fully in keeping with the plan that we established for them.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, thank you.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

As for the question about a headcount reduction of 7,000 people, this is a consolidated number. It includes the people that were mentioned, the headcount reduction, by Libano, 4,800 at Via Varejo.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, Christophe. And what about the gross margin for the second half of the year? Because last year everybody was perplexed with the expansion of the gross margin, that helped with yoru [ph] financial results. This year things are different. So I just wanted to understand what we should expect. And how this translates into competitiveness.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Tobias, the competitiveness of policy was not implemented in the second half of last year. In other words the margin performance actually includes this competitiveness approach. We have to consider better negotiations, we have to consider a significant seasonality effect. And now in the current challenging environment which is somewhat volatile, it is difficult to compare.

All comparisons will be difficult actually. This is no different than the other line items. As we look banner by banner, we see more pressure on gross profit. But we want to maintain our competitiveness policy, particularly in the food segment.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, Christophe. I know you can't give us any figures or guidance. But in terms of direction, should we assume that last year's gross margin will not necessarily be a reference?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

I would suspect that the gross margin should be reduced, because we're beginning the year with a lower margin.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So thank you.

Operator

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

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good morning, one and all. I would like you to please elaborate on the performance of (technical difficulty) closing of stores, in the case of Extra hypers, since the Third Quarter of last year, I guess that's what explains the constituation [ph] in the Second Quarter, is the non-food factor in hypermarket. I just want you to tell me whether this is a fair statement, because an improvement was not seen.

Because in the Second Quarter there was a 5.1% sales decline in Extra hyper. And this would be explained by non-food items in hyper. But when I look at the supermarket segment, last year supermarket grew 2.8%. But there were a lot of conversions. And Mike [ph] has talked also about that (technical difficulty). Could you please explain?

A - Daniela Sabbag {BIO 18861490 <GO>}

Fabio, this is Daniela. Look, there was no worsening, particularly when we analyze the foods category. You repeated Michael's words well. The negative growth happened because of store conversions, not just super and hyper.

If we through [ph] that, the level would be similar to what we had seen before. And when we talk about Extra hyper, well this is related to the worsening, the deterioration of the macroeconomic environment, the comparison with the FIFA World Cup last year.

So when we consider everything else, the net of these effects, the food category continues to show a sales improvement. And improvement in customer traffic. This is what we can see analyzing first to Second Quarter.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you. One last question, in terms of M&A you mentioned that you would look into possible opportunities for M&A, if an opportunity comes up. I just want to understand, is this a movement focused on cash and carry change [ph], or any specific format? Or would this be a movement to reinforce your regional footprint, if you want to increase your footprint in any given region? I just want to understand the M&A strategy.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Fabio, actually we are looking at any and all opportunities that arise. You know how this works. I just wanted to say that we continue to be focused on having a capital structure that will allow us to enjoy an opportunity that might come up.

We don't have anything in the radar right now, we don't have any additional information to disclose about that. But I just think it is important for you as investors to know that the Company has a capital structure that allows it to grow not only organically.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Excellent, thank you very much.

Operator

The next question is from Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone. My question is about costs. And then I have another question for Belmiro about Assai more specifically. In terms of costs, I would like to understand the impact of electricity in your margin.

Your margin is slightly reduced, more than 100 BPS. So what is the impact of the increase in electricity? Belmiro also mentioned a 50% increase in electricity costs with a clear impact on Assai. But I believe it also applies to all other food retail operations.

And is there any opportunity to lower rental costs? If I'm not mistaken, you said that you have 15% reduction in rent for Proximity stores, in 50% of those stores. It seems to be quite strong. So maybe we can have more operating gauge [ph] in the future.

So first the question about the electricity, then rental costs. And now to Belmiro about Assai. Belmiro, you mentioned a couple of things about a slight change in consumer behavior, migrating more to Assai, which is positive to Assai.

But at the same time, there is some concern with food service. And how you can manage the food service. So how can you manage that in Assai. And what do you imagine the impact will be on your sales in the future? Thank you.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Gustavo. Let me answer the first two questions. And then I'll give the floor to Belmiro. The impact of electric energy (technical difficulty) that in the second half of (technical difficulty).

Utilities in general, like electricity, water, gas, et cetera, they will be the second expense in our P&L for classical retail, second only to personnel expenses. I don't know the exact impact. But the number in BPS in the food segment is approximately 35 to 40 BPS as additional expenses vis-a-vis the previous year.

Considering that, Gustavo again, both in the retail segment and Multivarejo, we have opportunities to lower rental expenses, not something that is just focused on this opportunity. But this is related to opportunities in the real estate that have been over performance.

Then we can consider adaptation or adjustments to utilities and rental expenses. And in the second half of the year, maybe we can capture what we've been negotiating in the current quarter. I won't give you any numbers or the magnitude. But we consider to have a significant reduction, from 10% to 25%, depending on the region and the store location.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Christophe, just a follow up question before we talk to Belmiro, what about the increase in electricity again? You mentioned we might even have 70% increase in the second half of the year, or about 42% region, 70%.

I'm asking you this, because I want to understand the trend in EBITDA margin. Once we know the gross margin based on what you said is expected to be stable, the EBITDA margin in the second half of the year. Do you think it would still have the reduction of about 100 BPS year on year, or do you see signs of improvement already in the second half of the year, just by the more negative impact of electricity costs?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Just one comment still about rental, I think it's important. Everything that Christophe mentioned, obviously I know I may sound redundant. But we are being compliant to our agreements. We're always based on our current contracts, those that are still to be expired to. But always in compliance to what was agreed. Everything has been negotiated beforehand. Everything we do is very strictly combined. And in compliance with the agreements.

A - Belmiro Gomes {BIO 18107864 <GO>}

Gustavo, Belmiro speaking. In Assai, the impact of electricity increased in expenses, 0.45percentage points, both for Assai business. And food retail. It eliminated slightly our; well several fronds [ph] that lowered expenses. And also the increase of electricity that also grabbed a share of it.

We expect to have another 18% in August. This is not the same for all regions of the country. It varies significantly in some regions in August. The Company both in Assai and in other business, also tries to lower expenses in order to minimize the impact.

But it was actually very strongly felt in the Second Quarter of this year. And some regions, when we checked the numbers for a simple comparison, when you check the rental stores, electricity expenses are higher than the rental amount.

So actually it has the second highest cost and expense. There is a series of fronds, I could give you more detail later on, business by business. But that's what we do to prevent this impact that reaches even 70%.

As to food service, in very small and small companies, we see the impact of consumer behavior. They are not dining out so often, or having happy hours. There is no impact on the executive lunchtime. But there is a reduction in other publics.

And it was also offset by more consumers that are coming to the segment. And we expect to have this trend continue in the second half of the year. But we also believe food service already went down as expected. So for the second half of the year, we expect to see stable levels, both for and consumers. And also merchants.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you. Just another follow up question; thank you, Belmiro, for the update on Assai. Just another follow up question about the possible impact of the EBITDA margin in the second half of the year due to electricity costs. Do you believe there is more room for the margin to grow from this base, or something lower than 110 BPS? I'm referring to the EBITDA margin.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

I don't want to put too much into perspective. This challenging current scenario prevents in [ph] from having any assertive outlook. But I can tell you is that obviously we are trying to focus on the; trying to maintain EBITDA margins.

But we have to say that the pressure, particularly on Extra, the pressure of cost. And inflation of our costs in Extra, will lead to a small reduction. It's hard to give you any figures right now. It would be just a wild guess. But the competitiveness policy allows us to consider by sub-category. And maintain the levels that we usually have. And the same goes for Assai.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you very much.

Operator

The next question is from Alan Cardoso, from Banco Safra.

Q - Alan Cardoso {BIO 15933677 <GO>}

Good morning, everyone. I have just one question. At Via Varejo we can clearly see the Company has been adapting the level of expenses to the current sales level, or something slightly better than that, since the macro scenario is not helping.

When it comes to Pao de Acucar food segment, I know you cannot give us any figure. But any quantitative data that might lead to expense reduction? I understand the Company has a number of activities to recover and gain market share. And each one of the segments of the food channels and formats.

But when you look at the market as a whole, if we consider sales added to 7% IBGE with nominal sales growing about 5 from April and May. So even though Pao de Acucar's market share is in line with the market, the level of income would not be enough to offset inflation pressure. Just I would just like to understand better the dynamic. And when GPA foods EBITDA margin or Multivarejo's might get stable.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Alan, I guess we go back to the final slide explained by Christophe. The work that Libano and his team are doing at Via Varejo, we are also implementing at Multivarejo the big synergies, the group synergies, occur exactly between the two banners, Via Varejo and Multi.

And that includes IT renegotiations, headcount optimization. In our case, since we have increased the level of service at Extra and Pao de Acucar, well that entailed a significant adjustment at the corporate level. And we also carried out an adjustment at the level of the management, from the CEO down to the officers, because we believe that this aligns the whole team.

A company with 150,000 to 160,000 people, employees, it is important that everyone participates in this moment of adapting the size of the Company. So this is a work that is being carried out strongly at Via Varejo, at Multi, Assai is going through the same process, Nova, in other words the whole Company is working as a corporation. So that we can implement these processes across the Company, because it will help us align our team in a good direction.

Q - Alan Cardoso {BIO 15933677 <GO>}

Thank you for the answer. Just a follow up question, if we imagine that your sales will not improve significantly at the same-store sales level. And I'm considering the macroeconomic scenario which is becoming more and more challenging, your initiatives to reduce expenses, will they be enough to offset the EBITDA margin of Multivarego, or would you need a second wave of headcount optimization and expense reduction?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

We'll go through rounds of actions as necessary. At this point, we designed some initiatives. Now there will always be some delay of course. But we believe; some delay. And so we can bear the fruit of these initiatives. But we are moving in the right direction.

Christophe put it quite right, at this moment of the economy, the only certainty that we have is that we are not certain about what is coming up. So it is our duty to follow market movements thoroughly. And to make decisions accordingly.

We are quite alert. Now what really matters is the Company is very agile in our decision-making process. The team that we have sitting around this table is very much aware that we're going through a complex moment. And that decisions need to be made according to the complexity of the macroeconomic scenario.

Q - Alan Cardoso {BIO 15933677 <GO>}

Thank you very much.

Operator

Our next question is from Richard Cathcart, from HSBC.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon. I would just like to go back to the gross margin, 60 basis points at Multivarejo, could you give us a breakdown of the factors that are contributing to this, the mix, shopping centers, et cetera?

And my second question, could you speak about any improvements of traffic? Because customer traffic became positive again in the Second Quarter at Pao de Acucar. Could you elaborate, please?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Your question about the gross margin, it increased by 60 basis points. As we mentioned, this corresponds to a number of things. I really don't want to get into a breakdown of the factors because we just don't do that.

Now what I can tell you is that almost 100% of the effect come from the mix effect, in other words the weight of Pao de Acucar, in the total of the Company, the weight of Pao in the total Company. And the second effect is the growing contribution of the rentals of our commercial centers. As you know, this increases the gross margin of Multivarejo.

Now, as for your second question, I will turn the floor back to Marcos Batista.

A - Marcos Batista

Richard, your question about Extra, you asked about customer traffic at stores. And as mentioned, yes, this is performing satisfactorily. We have a very positive trend to recover customer traffic, modernize the stores, as I also mentioned, well show a relevant gap in terms of sales volume. And the customer traffic we see a trend of a sustainable recovery.

A - Unidentified Speaker

This is Elijio, Richard. As for Pao de Acucar, we expect a second half; well, we have a more favorable comparative basis. On the other hand, the environment is getting more and more challenging. So what do we have? We have a commercial plan for this banner for the second half, which is focused on some strong activities.

We have our anniversary in August. It was totally redesigned to fit the current environment. We will be opening 5 new stores as I mentioned. And we are starting to capture the maturity of stores that were opened in the end of 2013. And end of 2014.

These stores are growing in terms of sales levels. And they grow normally in the last quarter of the year. So I guess that all of these activities will bring us a good performance. Additionally, we continue to work strongly, always looking at the market. And our competitiveness in the second half, we have a stronger program to readjust the whole store assortment.

I cannot give you any detail. But we have interesting things for the Mais program, our loyalty program. And I guess that this will help the Pao de Acucar better results for the second half of the year.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you. And a follow up question about the gross margin, could you explain if Extra hypermarket gross margin is stable year on year, or whether it is dropping?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Gross margin remains stable.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you.

Operator

Our next question is from Ms. Andrea Teixeira, J.P. Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello. Good afternoon, everybody. I just want to have a follow up question about customer traffic. Have you felt any positive effect of your approach of having a strative [ph] prices? Is this showing an improvement in your policy for offerings, sale, particularly in terms of the Extra banner? Is it increasing customer traffic?

That's one question. My second question is about your risk provision policy. Any changes regarding fiscal provision, task provision?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Andrea, about customer traffic, as mentioned, yes, we see an improvement. And a sustainable improvement with more customer traffic and more sales volume. And this results from our competitiveness initiatives, initiatives regarding modernization. And everything we have implemented according to our plan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

And this is Christophe now. I just want to add, like I said in the main highlights in the beginning of the presentation, in Extra and hyper banner, volume and traffic went back to behaving positively, despite a difficult comparable basis, considering the World Cup effect.

But despite of that, in the end of the quarter we resumed a positive sales volume. And positive customer traffic, which are a positive sign for the recovery of that banner. Now to answer your second question, Andrea, indeed (technical difficulty) will have a possible impact. And a second question regarding ICMS credits in Sao Paulo. So these two issues explain the increase in the provision.

I just want to highlight to you, Andrea that the review of our contingencies and the subsequent provisions, while this is the process that we do permanently every quarter, we review the level of provisions that we have. And this results from our own appreciation; depreciation of our legal adviser. Finally, I want to highlight. And I guess you asked about that, we didn't see any changes in the policy that we adopted for provisions.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect. Thank you, Christophe. And I know that this is a very long conference call. But I think that this is for the benefit of all analysts that are following this conference call. I know it's difficult to predict the margin. But considering the efforts that the Company is making, have a more lean structure. So these 7,000 people who were laid off, can we see a positive impact on SG&A?

And another question about marketing expenses, the Company has a big marketing expense, one of the biggest in Brazil. So not considering the evaluation, we talked with Libano about this. But as a group, do you see any further opportunities to cut down expenses?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Andrea, expense reduction opportunities are endless, because we always have to adapt to the trends that we observe in the business. What I can tell you to answer all of your question is that the initiatives regarding headcount optimization, the other ones about rentals, utilities, efficiency, et cetera, at this point they account for a little over 10% of the SG&A of the Company.

We are prepared, or we are ready, to continue to reduce expenses in case our sales remain volatile. Your other question about marketing expenses, well marketing expenses might seem high as a percentage of sales, however marketing expenses are gauged according to market reality.

What really matters to us is to maintain our media presence relative to our competitors. By maintaining a relatively high exposure in the media, we can reduce our media expenses. And that will have an impact on media expenses in the second half of the year.

Just in a nutshell, we have a total impact of 2% on the G&A. If necessary by the end of the year, we are prepared to change this even more.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you, Christophe. Thank you for the explanations. It's very difficult to navigate to sale in the current Brazil. Thank you very much.

A - Daniela Sabbag {BIO 18861490 <GO>}

So this concludes our call for the Second Quarter. Thank you. So much for joining us today. We also thank the team here with us today. We highlight that we are ready and willing to face the second half of the year, which is going to be quite challenging, particularly in non-foods.

So if you have any questions, before we close the conference, I'd like to make it clear that we are here for you for any questions, or you can also contact us by phone. Thank you very much.

Operator

This concludes GPA's conference call. Investor relations department of the group is available to take any other questions you may have. Thank you, all for joining us. Have a good day.