Q1 2015 Earnings Call

Company Participants

- Emmanuel Eric Lemaitre, Chief Financial Officer
- Fernando Oliveira, Analyst
- Libano Miranda Barroso, Chief Executive Officer
- Marcelo Rizzi de Oliveira, Investor Relations and Strategic Planning Officer

Other Participants

- Andrea Teixeira, Analyst
- Robert Ford, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Via Varejo Conference Call to discuss the results of the Company in the first quarter of 2015. This event is also being broadcasted via webcast, which can be accessed at www.viavarejo.com.br/ir, where the presentation can be downloaded. The slide selection will be managed by you. There will be a replay facility for this call on the website.

We would like to inform you that the Company's press releases are also available at the IR website. This event is also being recorded and all participants will be in a listen-only mode during the Company's presentation. After Via Varejo's remarks are completed, there will be a Q&A session, when further instructions will be provided. (Operator Instructions).

Before proceeding, let me mention that forward-looking statements that may be made during this conference call related to the business beliefs and assumptions, and also financial and operating assumptions are just assumptions such as of currently available information. Future considerations are not guarantee of performance, because they involve general economic assumptions and then depend on circumstances that may or may not occur. Investor should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Via Varejo and those could also lead us to results that differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor to Mr. Marcelo Rizzi de Oliveira, Investor Relations Officer of the Company.

Marcelo Rizzi de Oliveira {BIO 19111391 <GO>}

Good morning, everyone, and thank you and welcome to our call for results of 1Q of 2015. We will then -- after the initial remarks, I will give the floor to Mr. Libano, CEO of the Company; and Mr. Emmanuel, the CFO, followed by Q&A session.

Now I'd like to give the floor to Mr. Libano Barroso.

Libano Miranda Barroso {BIO 4670536 <GO>}

Good morning, everyone, and welcome to our conference call for the results of the first quarter of 2015. On slide number two, here we have the main highlights of the quarter where we posted net sales of 5.4 billion, very stable in terms of growth vis-a-vis the first quarter of 2014. Once we exclude the CADE effect, which our stores that had to be shutdown or closed because of the merger with -- when Via Varejo was created.

This revenue position stems from a significant market share gain during the period. This market share was obtained once we were able to balance our cash position and are over due to our strategy to boost growth through our Crescer Mais project and we will elaborate more on this project further on.

The Company's profitability measured by EBITDA was R$515 million, with an EBITDA margin of 9.6%, increasing 70 basis points and this is a balance between revenue growth together with scaled gains from our operating, logistics and administrative gains. This shows a very strong discipline of growth with cash generation, and also we are very mindful of our costs. Therefore, combined with our financial management and also a robust management of our cash and cash equivalents, we were able to retain net income of 239 million, which accounts for a net margin of 4.4% and a significant growth of 33.7% when compared to the first quarter of 2014.

And finally, the last highlight pointing out to our vision of the future, our investments quarter-on-quarter increased 33%. And this clearly reinstates our commitment with our medium and long-term strategy, which is very much related to a very qualified expansion and improvement of our assets.

Now on page three, slide number three, we see -- slides three and four, we see the completion of our strategy, whereby we strengthened Ponto Frio and also the expansion of our stores. Ponto Frio, we have a very clear focus to stress the positive aspects and also the fact that we want to position Ponto Frio, especially in areas where it excels. And to that end, we opened two premium concept stores, one located in the shopping mall of Jota Kai [ph] Iguatemi JK, Iguatemi and also another store in Ipanema in Rio. These stores have a sophisticated assortment profile. It also provides personalized customer service and product experimentation.

We conducted a market survey and we are now introducing the best of both worlds, a good environment, sophistication, and customers have a very nice experience in the stores. They can use tablets and the customer can pay without having to go to the teller and they are served by the consultants in the store.

In the next slide I show you the results of our Crescer Mais projects in terms of furniture and mobile projects. We have stores in Rio Grande do Sul, Rio de Janeiro, Sao Luis Maranhao, Porto Alegre, Itaborai and both Ponto Frio and Casas Bahia stores were totally remodeled giving customers a much better shopping experience both for furniture and mobile. The feedback we've received was very positive. The conversion was much better and cross-selling also improved. The customer walks through the store and then he buys other products in addition to those that are new to the store.

And so now, I'll give the floor to our CFO, that will talk about our results.

Emmanuel Eric Lemaitre

First, I would like to refer to our net sales. The net sales in the first quarter of 2015 was 5,388 million and there was a reduction in total sales of minus 1.1% vis-a-vis the first quarter of 2014. If we consider the fact that we closed 42 stores, because of the agreement we had with CADE. If we hadn't closed, our growth would be positive of plus 0.1%.

The revenue from same-store sales; according to same-store sales, our revenue was down by 2.3%. At first, we considering these are good result for the following reasons. First of all, and I would like to ask you to bear in mind that the operation of a business like ours is usually, the market is usually, pulsating like there are growth, but looking at our prices minus 0.5% and when you compare this to other companies, we are in a very good position.

But when you look at the market evolution as a whole, and we have numbers for January and February, there will be a reduction in the market of minus 7%, whereas Via Varejo grew approximately 1%. It is also worth mentioning that in terms of volume of products sold or COGS in the first quarter of 2015 when compared to the same period of last year means that we are growing, we sold more products, but our sales were impacted by a very important mix in the first quarter of 2014.

Our market share for television sets was very high, due to the World Cup period and TV sales were twice as high. TV sets in the first quarter were down this quarter by 30% as compared to the first quarter of 2014. The sales highlight comes from the white line when we look in smartphones as well, when we look at the numbers in the first quarter of 2015. In the quarter, we had 1,037 stores altogether. Up to-date, we opened 10 stores, 3 stores were opened in the first quarter of 2015.

You see in the map, where our stores are located. And we see growth in the Northeast 50%, as I can tell you, with 50% certainty that we will concentrate our activities in these two regions.

Now, I will refer to gross profit and SG&A expenses. Gross profit went from 33% -- I mean there was an increase of 2.2 basis points when compared to last year and here 220 basis point. We have some elements that had a positive impact on our numbers. Last year, I think we talked about additional revenues, so we have more offerings and we also increased some of the initiatives that were introduced last year and we have made improvements in logistics as well.

In terms of additional revenues, we have some benefits in 2015 of revenues coming from participating in the procurement process from Nova. And we are now having gains coming from our logistics infrastructure from Cnova [ph] and this is in keeping with our synergy project of the Company's assets.

SG&A expenses from 33.1, it escalated to -- 22.1 to 23.3. There was an increase of 4.2% and in the period 1.2%, or 110 basis points. In the first quarter of 2015, we had some expenses related to investments and they were posted as expenses, but in terms of -- also expenses with project consultancy and these projects were mentioned by Libano and expressed in the previous slide, and we also had some expenses to restructure our financial service baskets.

In terms of expenses of Via Varejo, our expenses are also related to some other benchmark companies in the market, because they are managing their expenses per plan. So we are reviewing our expenses very carefully on a monthly basis and because we are also interested in variable compensation to achieve better results.

EBITDA, as a consequence, increased when compared to gross profit. It went from 8.9% to 9.6%, having five in total, heading up to R$515 million.

Now talking about working capital improvement. We have a very important indicator to our business, which is the gap between inventories and suppliers. This is the capacity to control our inventories vis-a-vis accounts payable or suppliers. We have a positive gap in the first quarter of 2015 vis-a-vis the first quarter of 2014, and the increase was R$285 million and this is due to great discipline in terms of improving our working capital need.

The Vice President of Logistics and the Commercial VP has stressed the fact that this is very important to us. We have to do the arbitration of our accounts. We have to make many adjustments in view of all of the opportunities that are laid out in the market, and then we have to do some intelligent procurement. Here, we see interesting possibilities in the market that allow us to byproduct at the lowest possible cost.

In the next slide, we have our cash generation. Cash, as explained by our release, we are not discounting 315 billion [ph] in terms of accounts receivable from credit cards, once this 1.5 billion is posted in the first quarter, we can see that the cash and cash equivalent improves by R$315 million when compared to the first quarter of 2014. The gross debt was down by 417 million because of repayment of the principal.

Net cash, as depicted here, that stems from the fact that we had changes in our credit card receivables in the first quarter of 2014, that increased to 2.5 billion. This is a debt position that gives us a very stable net financial income position, very positive to our business.

In terms of net financial income, we went from minus 2.9 of sales to minus 1.6. And this results from all of the measures taken in the first quarter and are related to our credit card receivables. As it was mentioned before, the net cash rose 732 million as explained before.

Net income, this is a consequence of everything that has been discussed before. It used to be 34 -- I mean it grew 34% and vis-a-vis the previous quarter, it went from 3.3% to 4.4%. And this stems from a more stringent control of expenses, and also the fact that we're able to take advantage of all of the opportunities that will now be deployed in 2015, great commercial competitiveness opportunities and a more stringent financial discipline and active working capital management.

Now, I'll give the floor to Libano for his final remarks.

Libano Miranda Barroso {BIO 4670536 <GO>}

Slide number 10 has a summary of how we see the year of 2015. In general, this is a more challenging environment and the country is currently making traction to its economy. It is making some adjustments in the macroeconomic landscape. But in our view, the country still has many opportunities and there will be opportunities for us to boost our strengths and potentials. We have higher scales, superior scale, the scale stems from our long-term partnership with suppliers.

We have to continue being able to partner and launch trends all the time sharing a vision of a win-win partnership.

Our brands are very strong and we do a lot of research with consumers in order to improve the quality of our services, and we are by far the largest advertiser in Brazil. With all of that, we can continue to improve on our differentials. We believe that operating efficiency should be constantly pursued. We want to be very efficient as Emmanuel said when he referred to our expenses management. We look for lower unit or SKU lower costs, while at the same time we wanted to keep the loyalty of our customers. We also wanted to gain market share. We look for growth, but qualified growth.

This growth doesn't come in detriment of cash generation. We pursue a discipline of growth and market gain with cash generation. And this brings about opportunities and at the same time more competitiveness. But this year, as we said before, the Crescer Mais project is already underway and being completed. Ponto Frio growth is very strategic. Ponto Frio has been there around for over 60 years as a very traditional brand acknowledged for its innovation and technology.

And as we said earlier on, we already opened two premium stores and we are looking at all of our stores analyzing every micro region, checking the region to see whether the stores aligned with the profile of that particular geography.

We are carefully looking at Ponto Frio to boost its performance and to be equivalent to that of Casas Bahia. We already initiated and increase project -- project to increase installment payments using the payment book. This was differential coming from Casas Bahia, but there will be -- well, all the stores are involved in an improvement project.

When it comes to categories, there are two categories of distinguished margins; mobile and furniture. We already started the rollout of the stores and there was funds from customers, as I said, has been quite positive, clients believe that we are constantly looking forward to having differentiated services in terms of delivery and also the fact that we are providing them confirmative consultations during their purchases. We're also improving our strategy in the North, Northeast, and the Midwest, and this focus will help us increase our penetration in these regions where we are not so much present vis-a-vis the GDP of these areas.

We also understand that the client today is multi-channeled. Clients access the online universe and also brick and mortar store, and we want customers to be loyal to our brand. And to that end, we are now providing other facilities like click and collect, or buy online and pick up in the store. We are finding different ways of serving our clients and focusing on operating improvements, and to that end, we also put together specific areas to take care of all of our financial services we are investing and technology processes.

We improve our capacity to grant loans and to do loans recovery in a more challenging environment. We believe that our capacity to better analyze to grant and recover credit will be enough to eliminate any negative impact coming from our economy.

And finally, the strategy is based on a very important pillar, which is the continues search for efficiency. And this efficiency is based on reviewed processes aiming at lower SKU costs adjusting the entire structure of the Company, both operational and administrative to better serve the market.

Now, I would like to open the floor for questions.

Questions And Answers

Operator

Thank you. Now we will initiate our Q&A session. (Operator Instructions) Our first question is from Andrea Teixeira from JP Morgan. Andrea, please go ahead. The next question is from Fernando Oliveira from Brasil Plural.

A - Fernando Oliveira {BIO 15036886 <GO>}

First of all, good morning, everyone. Thank you for the call. I have two questions. The first question is about the Company's cash cycle. The second is the expected same-store sales for future quarters.

Starting with the cash cycle, do you have a policy to lower the impact of SELIC on financial expenses for months with lower receivables. The problem is that this quarter you've improved a lot, the Company's cash cycle, 53 vis-a-vis 30 last year. And this deteriorated the Company's financial cash at 1.4 billion. The question is, I wonder if you intent to continue with this strategy to lower receivables in future quarters. And the answer is yes, what about cash cycle in the future?

As to same-store sales, how do you see same-store sales for future quarters? Should we expect to see a rebound of the index coming to a positive level again? Thank you.

A - Emmanuel Eric Lemaitre

First answering the question about cash cycle, cash generation. As you know, today our cash position allow us to work on our accounts payable from credit card receivables. That's something that we started early in the year. In other words, that's a practice that we started recently, and we stick to it, whenever we can do that with our cash position. So that's an opportunity that will grab on a monthly basis.

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Fernando, Libano speaking. Thank you for your question. We don't give financial guidance, but we can share with you our viewpoint on how we expect -- what we expect to see in future quarters. There is a key aspect that has to be taken into account, that is an important mixed effect to be considered.

Last year, particularly due to the World Cup, we had a very strong share of IT items, television, and this should always be considered. We already had a significant impact in the first quarter, but particularly now in the second quarter, that's an impact and effect that has to be considered for analysis.

Overall speaking, there is a rebound of consumer confidence level for the second half of the year. And as a result, we will be working on the proper sales to the future scenario. And we will also consider seasonality. This year we clearly showed our strategy in the first quarter with the settlement -- I mean, the Big Sale in the second week of January. We work very effectively with the media at the point of sale with promotions, products in order to encourage consumers to participate in our Big Sale in January.

Likewise now we have Mother's Day, which is a key date for us and we are very much prepared in every aspect of the work. We perceive a good response from the seasonal event. And we keep on working in the third and fourth quarters. In the third quarter, we have Father's Day. This date is not as significant as Mother's Day, but it's still significant. And in the fourth quarter, it is always the main quarter in retail. We have Christmas season, Black Friday and we will be very well prepared. As a result, even though we have a more challenging sales scenario, we see opportunities, particularly for the second half of the year.

A - Fernando Oliveira {BIO 15036886 <GO>}

Great. Thank you for your answers. Second was not so clear though, what are the cash cycle for the future? Should we expect to see receivables discount?

A - Emmanuel Eric Lemaitre

Like I said before, we have on the comparative base. Today, we have an aggressive plan to keep on generating cash. That's one of the goals of the Company, generating cash and profitability. Like I said before, the decision of discounting or not discounting will be based on the Company's cash status.

A - Fernando Oliveira {BIO 15036886 <GO>}

Great. Thank you.

Operator

The next question is from Andrea Teixeira from JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello, good morning. Congratulations on the results. Thank you for the call and for taking my question. I apologize, I had a technical glitch, when I was about to ask my question. Now, just trying to match everything about the margin to conciliate, excluding Cnova the margin increase would be about 100 base points year-on-year, if I'm not mistaken. I wonder if this is expected to persist, or like we said before, a couple of quarters before, once you have or maybe this margin gain will be re-invested in price considering the scenario. On the other hand, we also have to consider that there is not so strong price sensitivity nowadays. So how could we address Mother's Day now, this important retail day? What is the Company attitude? Market share, for instance, is now the time to try and activate the sale and I know you cannot give us guidance about Mother's Day, but despite challenges what about market gains, are they expected to continue?

And adding to this question. What about the boost or acceleration of the mobile store? Should we expect to be an acceleration of CapEx in mobile stores due to this opportunity or the cash that was accrued by the Company?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Hi, Andrea, Libano speaking. How are you?

Q - Andrea Teixeira {BIO 1941397 <GO>}

Good.

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Just mentioning a couple of highlights here. Coming back to margins, addressing more specifically your question, we can see this margins, the EBITDA margin of these levels, we don't give a financial guidance. But we understand that the combination of our discipline in terms of cost, productivity gains, added to the vision that we want to gain market share, but in a properly manner. In other words, we don't buy market share, so to speak. We don't grow if we have to impair our cash growth.

So considering this good balance, we do expect to see maintenance of our margin levels. We know the scenario is more challenging for sure, and faced by these challenges, we try to work on our distinguished levers. Like we said before, gains have scaled our media capacity. And above all when it comes to seasonal data, seasonal dates, and this date specifically wither the test of the price demand elasticity.

Mother's Day or the previous weekend had a good response. And the next weekend is also very important, the next couple of days are important. And they are part of our vision, part of our expectation for the elasticity levels which today are lower precisely due to the whole scenario in the country. But still within our plans, we are very much prepared. As you can see from our inventory levels, we are very much prepared always negotiating with the industry, with cooperated promotions in order to provide the best to our customers.

It's true, we are boosting our conversion of our mobile stores and furniture stores. In other words, we're working on the store in store model. We have already started the rollout phase by the end of the next quarter, we already disclosed the conversion numbers that this is taking place. It is strategic and we'll maintain our pace this year and at the same time open new stores, like Emmanuel said, particularly in the Northeast and in the Midwest.

So we do expect to see challenges. However, in this environment we will gain share with top quality and profitability levels similar to those that we achieved before, but unfortunately we cannot give any financial guidance.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you, Libano; thank you, Emmanuel, and thank you for your comments.

A - Emmanuel Eric Lemaitre

Thank you.

Operator

(Operator Instructions) Our next question is from Guilherme Miller [ph] from UBS.

Q - Unidentified Participant

Good morning, everyone. Thank you for the call. This quarter sales, our payment book sales went down to 2.5% of total sales. Is this the impact of any change in the credit policy?

A - Emmanuel Eric Lemaitre

Thank you for your question. You are right. We really see a drop in the first quarter. However, we have to take into account that January is a time of the year in which naturally we have a lower payment book share. And we should also take into account that in our sales we have many regions that are not favorable. We have significant sales growth in the Northeast and because we don't have a long footprint, long-term, long time footprint in this region, we don't have significant numbers for payment book in that region. But when we check our goals, clearly there is an increase in the penetration of these regions according to our goals. So once again, when I check our progress regardless of the fact that we have a negative mix, as you can see an increase in the Northeast. Well, we have a good trend of rebound, thanks to the actions, commercial actions, promotional actions, we really advertise a lot our credit operations recently and now we're reaping the first fruit when we restructure our department of financial services.

Q - Unidentified Participant

Thank you.

Operator

The next question is from Robert Ford from Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. Good morning, everyone; congratulations for the results. Could you make some comments of the trend of past due portfolio in the credit operations and your expectations to contain or refrain this past due actions?

A - Emmanuel Eric Lemaitre

Here we can see a marginal increase in default delinquency. I think it's wise to assume that this trend will persist or can even get worse. But several actions were performed to control the delinquency increase. (inaudible) we are just assigning better quality credit. And secondly, we are investing in tools and also human resources to improve our recovery of past due loans.

It's also worth reminding you that in the first quarter of the year, we opened a partnership, which is an agency, Bento, and they have a lot of know-how when it comes to management of these operations. So we can also see improvement of services and that will certainly contribute and help us to work on this worst delinquency or default index.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you, Emmanuel. Libano, could you talk a little bit about competition? What about competitive dynamics and consolidation prices and your expectations for the year, vis-a-vis competition?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Hi, Bob. Thank you for your question. Our scenario is a competitive scenario. In this environment, by and large I think all players are pursuing competition on a balance between profitability and growth. Particularly on our part, we have this clear vision, but we should grow in a balanced manner always with profitability in mind and market share gains are really happening. Thanks to our diligence, and above all because we do have this uniqueness. In other words, we have logistics capacity, media capacity, we also have a good procurement scale, and above all, we have good relations with the industry. And this allows us to work in a collaborative manner and provide the best promotions in seasonal dates to our customers. So that's a very healthy environment and competitive among all players.

Q - Robert Ford {BIO 1499021 <GO>}

And any signs of consolidation in terms of share or acceleration or boost in this kind of environment?

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Our organic market share growth, if you consider the numbers by the end of last year, we had significant growth particularly in January and February. For March, we don't have the figures yet. But our growth applies to the specialist market, in other words our market of brick and mortar stores and also when we consider the total market, including hypermarket and e-commerce. We also grew in this aspect. So our growth is unique organically in the market.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much, Libano, and congratulations again.

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you, Bob.

Operator

This concludes the question-and-answer session. I would like to give the floor back to the Company's management for the closing remarks.

A - Libano Miranda Barroso {BIO 4670536 <GO>}

Thank you all for joining us. The Investor Relations area is at your service for more clarification. This concludes Via Varejo's conference call. The Investor Relations Department will be here for any further questions you might have. Thank you for joining us today. Have a great day.