Q2 2016 Earnings Call

Company Participants

- Belmiro Gomes, CEO Acai, Executive Director, Commercial & Marketing at Carrefour SA
- Christophe Hidalgo, CFO
- Flavio Dias, head Cnova
- Isabela Cadenassi, manager of Investor Relations
- Luis Moreno, CEO and OO
- Marcelo Bazzali, Head, Proximity
- Peter Estermann, CEO Via Varejo
- Ronaldo Iabrudi, CEO
- Unidentified Speaker, Unknown

Other Participants

- Andrea de Shaida, Analyst
- Franco Aberlardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Juan Jiomez, Analyst
- Richard Caffcard, Analyst
- Thiago Macruz, Analyst
- Unidentified Participant, Unknown

Presentation

Operator

Good morning, ladies and gentlemen. And thank you for waiting. Welcome to the GPA conference call to discuss the results for the Second Quarter of 2016.

This is also [ph] being broadcasted via webcast which can be accessed at www.gpair.com.pr [ph] with the respective presentation. The slide selection will be managed by you. There will be a replace facility for this call on the website. We inform you that the company's press release is also available at its IR website.

This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After GPA's remarks are completed we will have a Q and A session when further instructions will be given. Should any participant need assistance during this call please press star zero to reach the operator.

Before proceeding let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Respond Act of 1996. Forward-looking statements are based on the release and assumptions [ph] of GPA's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to the future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GPA and could cause the results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor to Ms. Isabela Cadenassi, Investor Relation manager of the company.

Isabela Cadenassi {BIO 20532610 <GO>}

Good morning, everyone. Thank you very much for participating in our conference call for the results of the Second Quarter of 2016.

Mr. Ronaldo Iabrudi our CEO will start with [ph] initial remarks then Christophe Hidalgo, CFO will present the main results and then we'll have the presentations of each business CEO [ph] with Moreno [ph] from Multivarejo [ph], Belmiro from Acai, Peter from Via Varejo. And Flavio Dias from Cnova.

After that we'll open the floor for a Q and A session. Now I would turn the floor to Mr. Iabrudi for his initial remarks.

Ronaldo Iabrudi {BIO 5151863 <GO>}

Good morning, everyone. Thank you very much, Isabela and Gabby [ph] as well that has prepared and organized this conference. And to GPA's whole team that is here with us this morning.

In my opening remarks I will be very brief. I believe I will then allow each business unit to have more time for their presentation. And also if needed we will have time, extra to address your questions.

As I have been doing in the last quarters I will stress the company's strategy and I will allow each one of the Bus [ph] to show how the strategy is being deployed in each one of them.

We have had and we have adopted in the last quarters. And also in 2015 and for the First Quarter of 2016 as well a more defensive approach in the company. I would say that we can consider an exception of proximities from it. But that defensive approach takes us to; in the adjustment of the business to a new reality we see in Brazil since 2015.

In these adjustments -- and that's what I've being calling the defensive approach we are looking for better productivity, powerful [ph] optimization, simplification, quality and customer service. Also we have been working on the working capital investments. And more recently, I would say in the last two quarters we are also dedicated in adjusting our portfolio both in terms of historic conversions, as well as historic closing.

And this is something that we have been doing basically in all of these. But especially in the operation. And also in multi-applications [ph]. In our point of view [ph] that approach we have stressed and the sound basis so that we can recover growth in the company.

We'll see today that after being done all this work of recovering the adjustment of the size of the DBU [ph] to the size of the market we will see that the Bus [ph] will have developed conditions to deploy commercial initiatives. And when I say that I am specifically thinking about extra multi Di Viareggio [ph] in the operation. But we have learned the basis [ph]. So that we could bring back those commercial initiatives in the way that we can ensure growth.

So what you will see in the presentations of each one of the Bus [ph] of each one of the banners [ph], is a clear trend of sales growth. We don't have yet in all of the banners a growth inflation rate, or higher than inflation rate. We just see that in FIE [ph] and we also are starting to see that the growth higher than inflation in the proximity format.

But in all of the banners and despite of the growth being a little bit lower than inflation, we believe and I think this is fundamental, we have seen in the last month a growth in market share. And when I say growth in market share I also am talking about it strong and the operation [ph].

I think Acai, Pao [ph] and Proximity we don't have anything to say about it because continuously they have been able to maintain the market share growth.

So what we are going to see today are the Bus [ph] adjusted to the market size and all of the Bus [ph] we have sales growth. And also market share growth.

And what can we see in terms of perspective? These are commercial initiatives that for us will keep on bearing results. But they will also demand small adjustments or some fine tuning in a way that we can increase sales growth, as well as increase profitability.

Internally the improvement worked. And also the optimization process whether for costs or expenses was a very careful allocation of investments and continuous improvement of working capital that will go on. And again you will have the opportunity to see in each one in each presentation.

About Cnova, we are also looking for an operating improvement. Two good examples show that permanent search for operating improvement. One of them is significant reduction of the stock out [ph], the search for a better level of assortment, as well as the implementation of several projects in terms of customer service quality.

But for me what is most important and most relevant in Cnova is that the company has concluded its investigation process. And we came up to a final amount and they are already reflected in the income statements.

We have communicated that to the market in the recent material fact. As I said, I hope you are able to see in each one of these presentations that the deployment of that strategy.

So now I will turn the floor to Christophe and then as Isa mentioned each one of the business units will make their own presentations and obviously they'll be here for the Q&A session and also for a final remark at the end of the call.

Christophe, the floor is yours.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you very much, Ronaldo. Good morning, everyone. Let's start the presentation talking about the main indicators of consolidated performance indicators of the company.

And slide number one, we see that the revenue of the Second Quarter has reached the R$16.7 billion [ph], R$9.7 billion [ph] coming from the fruit business, which is growing from 8.7% in the quarter. I would like to highlight that the growth was negatively impacted by the Easter impact [ph]. We estimated and consolidated sales that's affecting [ph] 2.5%.

For Acai, we see that it's maintained a high level of growth of 37% and that the area that the growth was sustained by an acceleration of same store [ph] sales as well as the policy of organic expansion. In the period Acai opened its first unit in Amazon [ph]. We have eight stores under construction. And two stores in the conversion process from Extra to Acai.

Acai today it is good to remind [ph] that it already represents 34% of the food business in GPA and other banners, in our food banners.

Pao de Acucar has maintained an aligned performance with the market and concluded the period with the market share stable.

We also see that in the Second Quarter we opened one Pao de Acucar store in El Salvador [ph]. The convenience gained representatively and the format already it takes 1% of market share. And despite of having opened very few units in the Second Quarter that is only five units.

Super and Hiper [ph] Extra have shown a good recovery in sales in the categories of food and that is thanks to commercial strategies implemented along the Second Quarter.

Now, for Via Varejo, as Peter has mentioned yesterday it still recovered the trend in sales, a strong recovery in sales and that is thanks to the consolidation of commercial strategies made in the last quarters. That has been translated in the Second Quarter in a market share gain as it had been the case in the First Quarter.

The adjusted EBITDA was the same as the prior year reaching R$716 million [ph], a margin of 4.6%.

Now, turning to the next slide, we see that the growth margin of the quarter has reached 25.4% of sales. And that variation of 1.4% of margin corresponds one, to the mix in fact between [ph] businesses. And also to the acknowledgement of tax credits in a most significant amount that we usually post.

If we consider the net tax effects of the gross margin, the performance of gross margin would have been approximately equivalent to what we have delivered in the First Quarter if we analyze per business always considering those tax credits, we could highlight that Acai maintained a gross margin stable of approximately 13.8%. And that -- and despite of a negative effect of ramp up of the 10 stores that were opened in the last two months.

For, Multivarejo, we see a reduction close to 160 BPS [ph] going to 26.7 of gross margin also net of those effect. And about Via Varejo, the margin is lower and around 80 BPS [ph]. And that is because it's more competitiveness price of merchandise and offset by a greater efficiency in service delivery.

We also see that the level of SG&A has increased in 11.8%. And I would highlight that this growth has been produced especially because of the mix effect [ph]. In fact when we analyzed each one of the business units Acai grown 33% in SG&A, less than sales but aligned to our expectation and also it is a consequence of the 10 stores opened in these last 12 months.

Multivarejo has grown 7.9%, the level of SG&A that is lower than inflation. About Via varejo,10.1% growth of SG&A. And that was impacted by the end of the tax relief on PARO [ph]. In fact considering that in fact on Via Varejo the SG&A level in Via Varejo would have been stable net of that effect.

I would insist that the focus of the group in expenses control is important specifically in the Second Quarter that has happened because we have a reduction of 3,700 employees; 2,000 in Multivarejo; 1,600 in Via Varejo totaling almost 18,000 employees less in 12 months.

Also, we focused on a continuous negotiation of lease terms with a result of 5% to 6% of reduction and those along the Second Quarter as it has been in the First Quarter. We were able to decrease marketing expenses that was a drop in those expenses as well. And also in other fronts we are constantly looking for productivity, important to highlight.

So in this slide that we have accounted R$481 million [ph] of other income and expenses in this quarter. These were non-recurring expenses and they corresponded to four main things. First, we had an additional provision for tax contingencies of R$184 million [ph].

We also had investigation expenses as Ronaldo has mentioned, the Cnova investigations have been concluded and here we can include expenses with the investigation which were R$127 million [ph]. We also dedicated R$75 million [ph] for restructuring expenses. And there was the impact of closing stores. And write-off of assets that have generated R$57 million [ph] of expenses. And also non-reoccurring ones.

It's important to say that and despite of having adjusted to the level of provisions for contingencies, as I have mentioned R$184 million [ph] for additional provisions for tax contingencies. I'd like to highlight that the total contingencies that we have in the balance sheet for June 30th has shown a decrease of R$8.1 million [ph] vis-a-vis what we had March 31st. The non-adjusted [ph] net result was negative in R$583 million [ph], of that R$491 million [ph] from Cnova.

Now, turning to slide number three, we have the group's financial results. At the end of the Second Quarter, GPA has a sound cash [ph] reserve of R$7 billion [ph]. This cash reserve is comprised of R$3.7 million [ph] of financial investments with daily liquidity, also R$2 million [ph] of receivables, non-discounted or that can be discounted from one day to another. So it's plus one additionally we have R$1.3 million [ph] of credit line that is confirmed [ph], also that are for the short term.

For net debt, we see a deterioration of the net debt of R$1.6 billion [ph] from June '16 vis-a-vis June '15. That deterioration is mainly explained by R$400 million [ph] in payments of extraordinary expenses especially for Marzan [ph] arbitrage and also for R$1.1 billion [ph] deterioration of Cnova's debt that is because of the -- a little bit more than arbitrage that was from R$6 million [ph] from the EBITDA and also from a deterioration from the working capital.

If we analyze the financial results, you can see that is has been impacted by a higher impact of interest rates as well as the policy of receivables policy along the first half of the year. So the most representative rating that we can do of the trend that we see now it can be seen as figures of the first half of the year more than in the figures of the Second Quarter.

That is this is a representative trend of our financial structure and closer to 2.6% of sales financial results. And that it's being translated in the Second Quarter -- about the first half of the year it is aligned with the increase of interest rates and the financial results here is higher R$200 million [ph], deteriorating into R$100 million [ph]; R$100 million [ph] from the interest rates in fact and lower cash position [ph], that is because of the receivables discount policy.

The other half of the R$100 million [ph] of this growth in the financial result has to do with monetary correction applied to assets and liabilities of the first half of 2015 that did not happen in the first half of 2016 because those assets and liabilities that were restated [ph] were in the monetized period.

Here I conclude the main performance indicators of the consolidate group. And now, I will turn the floor to Luis Moreno. He will talk about Multivarejo's performance.

Luis Moreno {BIO 21181673 <GO>}

Good morning. In the Second Quarter, Multivarejo had an adjusted EBITDA of R$384 million [ph], a margin of 6% as a percentage of net sales. First quarter, we started to see positive signs of recovery and improved trend.

Gross margin had a positive impact in terms of tax credits above the average at 250 basis points. The margin also has an additional impact, temporary arbitration [ph] due to the change in the commercial model and also negotiation with the suppliers, gradually changing from a model-based in-selling to sell out.

As part of the investment, promotional investment with [ph] suppliers is no longer related to procurement and now is not related to sales. This transient impact [ph] accounted for 60 basis points over the Second Quarter. SG&A growth was below inflation, 7.9% particularly expenses [ph] directly related to same store operations remain flat vis-a-vis 2015.

Despite the inflation, scenario in the Extra banner, we had one sales recovery particularly a recovery in volume in food categories, an upward trend clearly which increased over the quarter. We implemented the three new commercial dynamics in order to provide real savings to Brazilian households in their full purchase cycle.

The first program 1,2,3 Savings Steps [ph] with progressive discounts of 20%, 30% and 40% [ph] was launched in April. The second program, Hiper-feira [ph], with everyday competitive prices for foods and vegetables was launched throughout the country in May.

The third program, the lowest price, with 300 SKUs [ph], the lowest price in the market on a stable on a stable and consistent manner which was launched in mid-June.

A combination of these three programs provided for a real savings opportunity and our customers are using it gradually and also acknowledging the new way to save at Extra. This new promotional architecture also enables us to improve the productivity at our stores, optimizing logistics, optimizing marketing expenses and stock out.

More specifically over the Second Quarter, we optimized Extra scheme [ph] including our productivity in a significant manner at 8% measured as the number of SKUs sold by our work. The increase in volume is increasingly better than nominal sales since investments in price in the three promotional programs reduced the unit price of our products.

Our suppliers also embarked all the new strategy in a progressive manner. They already see the benefits that they can have working hand in hand and well-planned. However, not all suppliers have the same speed in order to deploy the new strategy. We can break down suppliers in three main groups. The first group, the majority group, is fully engaged, capturing benefits and group is sales volume. They have supported us with their investments in price and they can see very positive returns.

This group of suppliers wants to keep on following and participating, actively engaged in all campaigns [ph]. And they even want to make more deals to be an exclusive player in the main categories by year-end.

Our second group, a smaller group, which is also trying out the new dynamics participated with some of their categories in order to better understand the dynamics and on a gradual basis will become part of the first group.

And our third group of suppliers, even smaller, they are considering the proposal. But definitely they can see a drop in share in our sales. Our intention is to give opportunity to all suppliers so they can contribute and participate. But naturally, the first to adopt the new strategies are also the first to reap the fruit [ph].

Response from customers and the figures trends [ph] make us feel very confident that we are on the right track. And the new commercial dynamics by Extra have come to stay. For example, the last piece of data from Nielsen [ph] about June shows gains in market share at Extra in value and even higher in volume.

In terms of Pao de Acucar and our Proximity banners, we keep on showing a positive behavior with market share gains and positive profitability in line with the previous year. This confirms the strength of our value proposition.

Pao de Acucar remains focused on loyalty and customer satisfaction with three pillars. First pillar, continue to improve assortment at value-added services, for instance, monthly subscription of wines launched this quarter, food e-commerce which grew 18% this quarter. And secondly, intensify the loyalty program and customized relations with customers based on their preferences and taste. The loyalty [ph] program already exceeds 70% of our sales share.

Third pillar, the implementation of new tools to measure and monitor store-by-store of our levels of service in order to accurately adjust the right levels of resources and assure our customer satisfaction vis-a-vis service and agility at the checkout.

Our first Pao de Acucar store recently opened in Salvador, Bahia has shown extraordinary sales results, was above our expectation. This shows the potential for growth of this format in regions where we don't have a footprint yet.

As to our Proximity format, we can see sustainable growth with market share gain and also profitability increase, particularly due to improvement of scale and processes. We're being more selective in our growth planning prioritizing Minuto Pao de Acucar which shows the vast return on a consistent manner.

We also want to share with you that today we officially launched the AliadosCompreBem project. It is a business model of neighborhood of Proximity stores that shows the company footprint in a new retail segment and makes GPA the first big national retailer to offer this kind of service.

AliadosCompreBem is a partnership between GPA and independent retailers emphasizing even further our multichannel proposition. The main idea is to share knowledge by the greatest retailer group in Brazil to further boost the business of SMEs located in different areas of Sao Paulo.

In addition to the multichannel approach, which is already a GPA characteristic I also highlight synergy with other Casino [ph] business, our controlling shareholder.

For AliadosCompreBem, the idea -- the basic idea to develop the project in Brazil was inspired by a model very well established by the Exito Group [ph] in Colombia. They have 1,200 stores under this format.

In this process, GPA's group worked hand in hand with the Colombian team adopting to Brazil the same model. It was in the pilot project phase since last year. Over the second half of the year, we expect Pao de Acucar and Proximity to continue with their excellent selling and profitability performance.

For Extra, we are convinced that the new commercial dynamics are the right response and answer to the market context and the format is expected to keep on consistently improving volume and customer traffic-wise.

Thank you very much. I'll give the floor now to Belmiro from Acai.

Belmiro Gomes {BIO 18107864 <GO>}

Good morning, Luis.

Good morning, everyone. Like Christophe said before, Acai this quarter, just as in the First Quarter, we posted very strong growth, 36.9 sales reaching 3 billion 630,000 [ph] gross sales, an additional 1 billion vis-a-vis the previous year. With the sales volume, we become the largest format for GPA foods close to 20% of the whole group and 34% for foods.

Contributing for the group in more challenging times and the strong performance stems from a combination of a number of factors, opening stores, particularly by the second half of last year and we have excellent performance and also strong, high same-store sales base considering our customer traffic at the stores.

We also highlight -- we have an impact this quarter of a high commodity performance. For cash and carry, they generate a positive impact. Due to the season, agricultural season, price went higher than nominal inflation, for instance, milk and beans and dairy. And they had an impact, a positive impact, contributing to our sales.

In terms of margin, despite this growth we maintained the margin levels vis-a-vis last year, fully stable, already met out the effect of tax credit recognition over the quarter.

Another important highlight has to do with expenses. We maintained strict control, a number of mechanisms for productivity and even dilution, increase in sales. At the end of the day operating expenses have a significant reduction vis-a-vis last year concluding at 8.96 of the store for net sales.

Despite the cost approach that we have in order to have the expansion pay for Acai, as we'll be talking for the second half of the year, by training, personnel training -- total expenses had a drop of 0.3percentage points reaching 10.39 from net sales or 9.58 of growth sales, almost 0.5% as expenses, lower than one digit. The result of this makes it better this quarter to grow by 58%, also adjusted from the effect of provision of some tax contingencies and tax credits, operating EBITDA.

The main highlight this quarter is the arrival of Acai in the north of the country opening Manel's [ph] last month. The unit is really big, more than 16,000 square meters, 10,000 pilot positions and therefore we can be present in all regions. And now in Manel's we have a base to expand to other cities and other capital cities and other markets in the north.

We closed the first half of the year pretty much in line with the Second Quarter, 36% growth sales wise. Acai exceeds 7 billion sales in the first half of the year. This account for higher sales compared to the full year 2013. So two and a half years later we doubled the company's size. The growth this half of the year added to the previous half of the year totaled 72% for a two-year timeframe.

EBITDA also goes up, net of 52% and net income BRL 72 million [ph] growing also very strongly. This shows assertiveness of the expansion plan. Acai, like we said before, is opening many stores, gaining new markets, getting to new regions so we've been very assertive. The new stores have shown very good performance and a very fast performance in our ramped-up approach and added to our plan naturally to improve our service and same-store sales.

For the second half of the year, we have a strong calendar for openings, 10 stores being built to conversions from hypermarket so we'll be very strong in opening calendars. The store is under construction account [ph] today for 140 square meters of floor area and have more than 60,000 square meters of selling area.

These stores are important and they come to strengthen footprint where Acai is a newcomer. And even in three new regions, three new capital cities that Acai will be this year. So that in the second half of the year we remain strong. And in 2017 with high grow rates just as we've done in previous years in the Acai business. So that's for Acai.

And now I'll give the floor to Peter from Via Varejo.

Peter Estermann {BIO 15380447 <GO>}

Good morning, everyone. Like I said before in our call yesterday and also highlighted today by Christophe, Via Varejo showed consistent sales growth and significant market share gains since the last quarter of 2015. The market share gains of the company are among the highest levels of our history.

In terms of result, EBITDA margin was 8.7% which was positively affected by the growth of the mobile categories. In yesterday's call I highlighted that we completed the implementation of another 206 store-in-store mobile stores with very positive results. And with that, we exceeded 350 stores, store-in-store mobile format in our total stores. Also positively affected by an increase in the penetration of financial services in our credit operations and also tax credits that were posted this quarter.

We also have another big challenge. If you think about our general expense line, we have a negative impact, like Christophe said before, of the tax relief payroll, the end of the tax relief and also collective bargaining agreement on the payroll. And this has increased our challenge vis-a-vis the continuity of our quest to reduce cost at large.

We keep on having a sound financial condition and a healthy capital structure despite the tough environment. We reduced our indebtedness [ph] level at BRL 763 million [ph] and we have a better cash balance. We had an average increase of cost of receivables this half of the year. But it was lower than CDI growth.

In addition, we had a level of delinquency that was lower compared to the Second Quarter of 2015 and in line with the First Quarter of 2016. And this stands from the investments we made in our credit approval tools and also improved collection efficiency.

We enhanced our customer segmentation by risk level and therefore, we have been successful in lower risk credit approval and rejection of credit for high-risk customers.

I would like to conclude by saying that we will continue with those aggressive commercial strategy so that we can keep on leveraging sales as well as bringing consistent gains of market share.

On the other hand, we have an additional challenge ahead for the second half of the year. In terms of cost, we will continue as we have been doing in the first half of the year, we'll continue working hard to drop costs and also to look for a good balance between sales and margin.

Thank you very much.

So now, I will turn the floor to Flavio Dias from Cnova.

Flavio Dias {BIO 18281132 <GO>}

Good morning, everyone. And despite of having you had a quarter that was very challenging in terms of financial results we have seen important developments and different strategies for Cnova.

And I should highlight once again a significant increase of marketplace share in our sales. We have gone beyond the 3,500 active sales people. And once again, we've seen an important increase and traffic in all our websites that totaled 257 million hits [ph], of those over 43% of them come in from mobile devices.

The quarter was also marked [ph] by a very significant deployment of all our back-up [ph] systems. We have redone a total replacement of our ERP system, also WMS, of all the DCs [ph] and our service systems. All of it has been done at once.

It was a heavy migration. And as it happens in all types of migrations we ended up having a stabilization period and all matters related to the destabilization and problems that we had with the leverage [ph]. Everything has been already addressed and our service level is back to normal.

As a positive topic now is that business [ph] stabilized the system. We will offer to the company as a whole more flexibility and also adaptation and capacity, as well as productivity. And most of the operations that are running there.

We also have performed well in logistics synergy with Via Varejo. We have improved operations that are done jointly, that allows us to have better service levels with important cost reductions.

We have also consolidated our work to reduce the stock out [ph] and the items where we have most need. And we are able to stabilize that in 8%. In the past it had meant [ph] 20%, it's much lower now. We have been able to have good performance in sales, a growth at 46% in SE [ph] over the previous year. And also, we implemented a new internet search tool. It improved our conversion.

We have important priorities for the second half of the year. We focus in improving operating accidents [ph]. Now, we are running on and stabilizing the ERPs [ph].

As Ronaldo has mentioned, we have also concluded the investigation logistics synergy. It's going to be concluded in the next half of the year, therefore, we'll be able to benefit from all this work.

We are also working to improve the customer service experience, after concluding the restructuring of our process in all systems and the service systems as well, having implemented a new mobile platform that will provide us more flexibility and agility in the whole site.

There is still a strong expansion of our ways [ph] in the marketplace. We intend to end the year with over 5,500 active sales people. And we also are working with a program to train people that we already have.

We want a quality [ph] program that will help them according [ph] to their service performance. That's what I have to tell you about Cnova.

Questions And Answers

Operator

Our first question is from Mr. Jiomez [ph] from Santander. (Operator Instructions)

Q - Juan Jiomez

Good morning, everyone. I have three topics I would like to ask about. The first, the tax credits on the half of the year.

You mentioned in the release and both from Multivarejo and Acai have tax credits that had a positive impact on the margins, 2.5 in Multivarejo, 1.5 of percentage points in Acai.

Of that, how much is recurring and how much is nonrecurring? I understand that most of it should be nonrecurring. And also, considering that most of that is nonrecurring, the impact in the margin that we have seen in this quarter should be a little bit higher than in the First Quarter. What naturally we should understand, the development of commercial strategy, that one, two, three savings and also important that in the First Quarter you had only one month of that promotion.

So I want to understand, for the Second Quarter with this strategy development as against more volume, what should we think about it? What should be the margin for the second half of the year?

And my third question; and I would like to take advantage of Javier's [ph] presence here. On Cnova, what should we expect after the restructuring process once the asset has already combined to Via Varejo in terms of commercial strategy change, e-commerce working closer to brick and mortar store, anything will change in terms of the pricing strategy?

I understand that it will grow. But how can we consider? How can we think about that online and offline strategy of Via Varejo from now on? Thank you very much.

A - Christophe Hidalgo {BIO 17982648 <GO>}

Thank you very much, Juan [ph] for your question. I will talk about the tax credits and the expectation that we could have about consolidated margins in the second half of the year. Then I will turn the floor to Flavio.

About tax credits, it's important first to say that those tax credits are related to business [ph] and it had to do with the tax replacement. Those credits and despite of having a higher magnitude of them than we usually see, they are credits that obviously as always are validated by our audit committee and also our external audits.

It's important to say also that most of the market that take those credits that is a market practice. And it is important to say that these are quickly monetized credits in a short period of time.

So now about -- in fact that Multivarejo, in fact, have been very close. If only NOIs second Q [ph] that, in fact, has been 221 million and the Acai, in fact, as your question, was close to 50 million. The recurring portion and nonrecurring portion of those credits; that is very difficult to say.

And for a number of reasons, first, we will know that a part of that before 2016, we do not calibrate that amount before 2016. That's one of the reasons. Second, it should be the same nature or from another nature, we know that for each prior period or future period of time as well [ph] that is going to be bringing us specific taxified [ph] to that.

It's very difficult to distinct [ph] what is recurring from what is not recurring. Also, important is that a lot of times in those credits do allow us to have future effects. That means that we cannot consider those -- and once again, I should insist [ph] as recurring.

Well having said that, what we can say about the gross margin in case of Acai, I have already mentioned in Belvito [ph] as well. We should be able to keep a gross margin flat or slightly higher than the prior year along this year of 2016, especially in the second half of the year.

For Multivarejo, it's also important to break it down by banner [ph] because they are very different.

For Pao de Acucar, as we have already mentioned, we'll keep the same EBITDA margin. In order to do that we will have to have the same gross margin for the convenience format, the fact [ph] is marginal. So the gross margin that we have delivered in the first half of the year should be similar in that [ph] of the seasonality effect, obviously, it's going to be similar to what we have been delivering in the first half of the year.

For Extra, this is something different in that situation because of the new commercial policies that are already bringing profit results in terms of recovery of sales volumes. We could expect dilution and that dilution [ph] is then five [ph] in the quarter -- In the Second Quarter in around 150, 160 BPS [ph].

And we believe that this fact [ph] will be partially mitigated in the second half of the year and our bet [ph]. And obviously, Luis is going to say more about it. We bet that it is already happening. This is about volume growth and sales growth that will allow us to maintain the margins of Extra. And that I already overrated [ph] in amount. And as we have seen in the Second Quarter. And also you have seen in the First Quarter.

Now, about your third question, I will turn the floor to, Flavio.

A - Flavio Dias {BIO 18281132 <GO>}

Very well, Juan [ph], we have had independent specials committees that have been established to assess the transactions. And we do have a great expectation to be able to expedite the synergies and align commercial strategies of the company after [ph] the business combination.

But we can only go back and talk about this when all business combination works have been concluded. So we should be able to talk more about it in the future.

Q - Juan Jiomez

Thank you very much, Flavio and Christophe. And now, a quick follow-up on -- still and tax credits.

So Christophe, we can say that something related to tax credits you will still be able to take advantage from -- in the future.

I know that it's difficult understand. It's difficult to differentiate nonrecurring from recurring. But you can also benefit from it in the next quarters, right, from there [ph]. Am I right?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Yes. But the tax -- and also as we know from other taxes as well. From each period, we have positive and negative adjustment in terms of taxes. That is part of the mechanics.

And I repeat, Second Quarter was characterized by a higher magnitude of what we usually see. And that does not mean -- more precisely to your question, that we have to neutralize 100% of that credit for future projections.

Q - Juan Jiomez

Yes. That's very clear. Thank you very much, Christophe.

Operator

Our next question is from Mr. Thiago Macruz from Itau. (Operator Instructions)

Q - Thiago Macruz {BIO 16404924 <GO>}

Good morning. I have questions about SG&A expenses in MultiVarejo. You mentioned a few topics there. What can we expect for the next quarters and how much of that is recurring? I'm talking about the R$53 million [ph] we're provisioning for labor contingencies. And also the rent or lease expenses and the project to improve efficiency in operations around R$18 million [ph]. That is my first question.

My second question is about the, one, two, three saving steps and lowest price, the new promotions for Extra. Do you have an idea of how much more in volume you will sell to offset those two understanding that you were discounting products there? And also the lowest price could lower the average ticket. Am I right? So these are my two questions. Thank you.

A - Unidentified Speaker

I'm sorry but now I will speak in Spanish. About the expenses of Multivarejo -- so about expenses in Multivarejo the published information is a growth of expenses in 7.9% but what we can see here is that in reality expenses, the same stores. And our expenses that have to do with operation had a drop -- a nominal drop vis-a-vis the prior year.

That reduction in the same stores was 0.1% and with the following highlight, personal expenses, reduction of 1.5%, marketing expenses dropped in 11%. And also utilities and occupational were flat [ph]. Of course, there a series of extraordinary of expenses that has to do with labor provisions, delinquency. And commercial leases.

It is very difficult to do a projection for the future, what is going to the dimension or the impact of those extraordinary expenses but the good news is that the expenses in the business is nominal, they were lower than the prior year. About one, two, three savings and lowest price. And the volume -- what is the volume that we have to capture?

And here, I would like to highlight that the growth that we have been seeing in the last three months, about the food business are very significant.

In the sales release, we have already informed that the increasing food sales in June was of 9% and this is on a progression since April, March. And June. But a constant projection then and a very clear one. So I'm sure that these programs will decrease the unit price of the products, that's why I mentioned in my presentation that our increase in the market share in volume, in unit is just too higher than our recovery in market share in value. Thank you very much.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you very much for your answers. I just would like to do a follow-up. Is it possible to say today that one, two, three in Extra is having a positive impact -- a net positive impact and a nominal gross profit? Can we say that today? That is my last question. Thank you.

A - Unidentified Speaker

All this new dynamics has a maturation process. As we have said, the representation -- the dynamics is based in three elements. First, an increase in sales, as in the partnership with our suppliers that are also contributing and -- with price and also space and an optimization of the operating expenses of the stores.

The contribution of our suppliers has been very positive, progressive. And where we have more engaging of our suppliers. I also mentioned in my presentation that we three groups of suppliers. There's one group that was -- most of them where we had suppliers that are fully convinced about this dynamics that are helping significantly to work with us.

As an example, I can mention some of them. For instance, Procter & Gamble and as Heinz, PepsiCo, Colgate, Kimberly, Dannon [ph] among many others. So in the Second Quarter still the equation of cash margin is not overly positive but the trend, yes, it shows us that the results will be a positive equation. And in June, we are already reaching that positive equation of cash margin.

Q - Thiago Macruz {BIO 16404924 <GO>}

Perfect. Thank you very much for your answers.

Operator

Our next question is from Irma Sgarz from Goldman Sachs. Companhia Brasileira de Distribuicao

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning. I would like to go back to a topic you mentioned before about partnerships. Of the company [ph] banner, partnerships that you want to renew or recover and I believe there will be similar partnerships to the project you already have in Colombia. So could you give us more color about what we should expect to see in the unfolding of this project in the coming months and what should we expect to see a stronger impact on total sales? I believe this project is still going to take a while.

Another question about the extra initiative. Can we assume that going forward you're going to repeat the initiatives that has three fronts, that you have been working already in terms of commercial campaigns and that you have been launching over the Second Quarter or will there be other initiatives in other areas in the future? Basically this is it. Thank you.

A - Marcelo Bazzali

Good morning, Irma, Bazzali speaking. Regarding the partnership as we showed in today's release, we have a project developed in Colombia in 2013, Aliatos [ph] project. And it comprises of partnering with small retailers. We began the pilot project back in April 2015 between 10 and 15. And now we have a total of 46. And now we're making official -- the official use of the Compre Bain [ph] brand.

So that's an endorsement we are giving to the small retailers and it's an ongoing process allied to know-how [ph] transfer like Luis mentioned. And we will be providing them with our full knowledge of the segment and also learning from them. And at the same time, using all the lessons learned by the Exito Group in Colombia with a consolidated operation naturally adapting it to the Brazilian culture.

The proposal to bring the Compre Bain brand involved a large survey, quantitative, qualitative survey. And we had a very good result. The brand that we discontinued in 2011 that we have a good response in terms of AB and CD custom brackets.

A - Unidentified Speaker

If I may, I would just like to add to the comment. Not specifically about Aliatos [ph] because I think Bazzali answered the full question. However, in the Fourth Quarter, we talked about the synergy initiatives that we were doing with Exito and I said at the time, we had 14 work fronts.

And one of the work fronts was precisely the one that we announced in the market now after having a structured and defined business plan with a longer term deal. And there are other initiatives as well.

I think we mentioned before the pilot study that we're doing for textiles in two stores. Bogota in May, we have a Cash and Carry [ph] inspired by the concept we have for Acai.

And we already had some negotiation rounds involving suppliers and also buyers from Colombia and Bogota and also negotiation rounds involving Colombian suppliers and Brazilian buyers in Brazil.

So answering your question, Irma, you give me the chance to show you that the synergy action that we announced for the Fourth Quarter of 2014 keeps on evolving within our plans and expectations and what we made public to the market.

I'll turn it over to Luis Moreno so he can give you more detail and answer your question more fully about the Second Quarter more specifically.

A - Luis Moreno {BIO 21181673 <GO>}

With regards to the three initiatives that we launched this quarter, one, two, three, the lowest price and Hiper faire [ph] these are three initiatives that have come to stay for a longer term and they're a part of our architecture of the new way to save at Extra.

The three programs combined and add to one another. And what they offer to customers is substantial savings, a thousand SKUs from leading brands and savings of 300 SKUs for brands that were not available at supermarkets and hypermarkets and only in cash-and-carry. And also savings for fresh product, for daily savings. And the benefit is the combination of these three programs. Then the customer can save more in the full purchasing cycle.

During the Second Quarter we are very happy to see the impact and the progress of the three programs altogether in the food segment. However, we are not happy with the progress achieved in our non-food sales, non-foods.

In this regard, we are going to emphasize in the second half of the year to have a stronger focus in order to improve our non-food sales. Like Ronaldo said before for instance, for textiles and apparel, we are ready.

We have two stores with a new textile concept. Neil Holbrooke [ph] from Colombia, Colombia's best in class in the textile category in supermarkets. And we have Jaguare [ph] and Engieta [ph] stores adopting this concept. And we even have exclusive brands from our -- like Brasini [ph], an architect [ph] from Colombia. So concluding the three programs add to [ph] one another, they'll be around for a longer term horizon and we'll also be working with new initiatives particularly with non-foods.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you. Now, a follow-up question about promotion of initiatives. Do you see any reaction from competitors? Vis-a-vis your commercial initiatives?

A - Unidentified Speaker

Competition is something dynamic. We haven't seen competition directly related to our initiatives. There are some now recurring reactions by regional competitors but we haven't seen something fully associated to our three initiatives.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

The next question is from Andrea de Shaida [ph] from JP Morgan. (Operator Instructions)

Q - Andrea de Shaida

Good morning, everyone. Thank you for taking my question. I would like to go deeper into margins. Should we expect to see something flat or stable in the second half of the year? Thinking about the strategy, an aggressive strategy, what about competition in this regard?

A - Unidentified Speaker

Suppliers, Moreno said that some of these suppliers already follow suit. He gave some examples and I believe that naturally the market will migrate to something similar. So what will your new strategy be? The game will have to change, otherwise we'll no longer see an impact.

Q - Andrea de Shaida

What about margin stabilization? How much of the traffic was improved? Or you assumed that extra sale remain reduced? So what about the five % drop for the extra banner sales? How much was traffic and how much was a reduction in ticket because I believe the price reduction also had an impact on ticket?

So could you give us more information about this performance if actually the 5% reduction was due to the drop in price? Like you said, it was not a strong impact over the Second Quarter. So how should we consider the same impact in the second half of the year and the Third Quarter?

A - Unidentified Speaker

In terms of sales, the data that you see is minus five for the extra banner. What we announced is for total stores. And this data does not offset the calendar effect. We closed two hypermarkets, extra hypermarkets which will be converted into SIE [ph] this quarter and we also have five extra supermarkets less -- or fewer compared to last year.

Net of this data, same store sales for instance and excluding the calendar effect. And if we specifically focus on the food segment, the result this quarter shows growth of 5.4%. Same store sales with no calendar effect. And for June, nine % growth rate for foods, same store sales with no calendar effect.

So it is important to understand the calendar effect and same stores effect. The growth that we post, however, is more related to an increase in the volume of the average ticket rather than increase in customer traffic. Traffic remains flat. However, the main driver to recovery is really an increase in average ticket.

As to the margin, the impact on margin if you consider the net terms once we exclude the tax credit impact, the margin effect that we should expect to see this quarter is 160 BPS, 160 BPS, also including a negative impact from the change that we've been doing to change the concept from sell in to sell out. So what does that mean?

In the past, when we bought goods from our suppliers for a specific sale or promotion, supplies related to this would be posted automatically at the time of the purchase when the goods would be in our DCs [ph]. But now, because the whole sales dynamics is a line to sales and trying to improve our sales, suppliers contribute with those products that effectively are sold to the customers. However, there is a cost in this transition of changing from one model to another.

And this cost was estimated at 60 BPS this quarter. And therefore the net investment margin wise would be at a level of 100 BPS. And this level might also -- well, it will depend basically on the mix of partnerships that will keep on strengthening with our suppliers.

Q - Andrea de Shaida

What about competitors?

A - Unidentified Speaker

We believe they cannot aspire to have the same partnerships with our suppliers because our architecture gives our partners or suppliers with an exclusivity element and our competitors cannot offer the same yet. Therefore, the positive impact on sales is directly related to the exclusive activity of these brands for a specific category or a product category.

Q - Andrea de Shaida

Thank you.

Operator

The next question is from Mr. Fabio Monteiro, BTG Pactual. Please, Mr. Fabio [ph], the floor is yours.

The next question is from Mr. Gustavo Oliveira, UBS. (Operator Instructions)

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone. Moreno, I have a question. Does the impact of changing 60 BPS that you're estimating from sell in to sell out?

A - Luis Moreno {BIO 21181673 <GO>}

That, in fact, is going to be recurring. That is your growth margin from now on.

When you compare it to the prior years, it's going to be 60 BPS below because of that change and in fact, that only happened in the quarter. In fact, it has to do with a transient change and once we take in that change, when we have absorbed [ph] that change, that's not going to be recurring.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And have you already concluded the transition in the Second Quarter?

A - Luis Moreno {BIO 21181673 <GO>}

I would say that it is -- we are at 60%, 70% of the transition period. Okay. So from now on, it's more comparable to what has happened last year, right? And the margin could be a little bit better. Yes. You are right.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And my second question is for Christophe. On slide three, Christophe, you were very careful there and you went to details and I thank you for that. You explained the net debt [ph] of the company which you have increased significantly and you explained the net [ph] variation of 1.6 year-on-year and 1.1 is coming from Cnova and your average growth.

So now, that you are going to have that exposure in Cnova and you're going to have more sales in Cnova [p]h, what do you think is going to be done quickly to hold back the need of investments for working capital or other investments for Cnova. Otherwise, the net or the debt situation could even deteriorate further and that's going to be very complicated for the company, even compromising all benefits that you were looking for in the first [ph] segment.

What could be done now to improve the situation of the financial position of the company, please? Thank you.

A - Christophe Hidalgo {BIO 17982648 <GO>}

Well the first thing that will go with this business combination [ph] is a recovery of the commercial behavior that is more positive, that is, will go back to growing within the market's reality. We understand that this combination will bring this as a main effect a more aligned strategy - supply [ph] that ours is going to be more in line with the market. But yes, we are thinking in a very tangible manner in the short term.

Though this combination has been studied and evaluated. And there is an obvious synergy that we will be capturing in the short term because short term for us two months, two months and a half and we are going to look for that inventory synergy. Most part of Cnova inventory has an overlap with the other issues [ph] of inventory and with the way [ph] that this is going to be the main synergy.

This is not in order to absorb a drop of 1.1 billion in debt. But we have to follow up with recovery of business, increase the margin level.

In the Second Quarter, we had historically a low level. It has some reasons and stock-up and so on. But the combination of that, the recovery of business by aligning our commercial strategies and also the inventory synergies among other actions and the synergy in the inventories is going to be the option with the strongest effect. Obviously, all of that is going to impact the cash in a way to offset or at least to mitigate that drop in 1.1 billion.

I should ask or stress that in the other businesses, the debt position was stable. That is the sound financial structure was maintained in the other businesses. And in spite of the trend of the difficult businesses -- and also another important element which is the operational [ph] decision of technically and strategically affecting [ph] -- is inventory levels. And despite of that of other businesses were able to maintain the sound structure.

That is for Via Varejo, Multivarejo, Acai. They also follow the same role, although Acai is financing a CAPEX higher than 500 million a year.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you, Christophe. And just still on the same question here, do you think about the food segment independently? And in the net debt [ph], are you able to separate deferred business from the other businesses or at a certain moment, you will look at the consolidated results and you will say "I will have to cut down on promotions or investments on deferred business so that I can really maintain the financial structure of the company".

A - Christophe Hidalgo {BIO 17982648 <GO>}

I don't know if Fabio [ph] well understood your question. I'm sorry if, Gustavo, I didn't quite well understand your question. But basically, our business has five major business units and each one of them have different managements both for funding as well as for fund allocation and they are independent and that independence is necessary because each business, you have different models, each momentum. And that means that necessarily, we are looking at the business in an independent fashion.

I don't know if I clearly addressed your question, Gustavo.

A - Unidentified Speaker

Let me try and add to that.

We have three businesses with independent governances. We have electronic business which is brick and mortar from Via Varejo with an independent governance. And because of that, it will make its decisions in an independent manner as well. Obviously, with a corporate guidance from the group, we also have an online business that is independent as well and that should keep on happening up to the moment when we have the approval of -- for cash [ph] and combinations that once again has an independent governance, boards, the committees. And us.

And also it has global guidelines from the group. But they do make their decisions independently.

And we have CGB [ph] which is the business where we have Multivarejo and Acai. They have the highest food weight here. They also have an independent board and independent committees. So these three groups, with their independent governance, will decide for the business, obviously, with guidelines and based on corporate criteria.

In a moment such as this one as we're having now, five quarters in a very complex situation in the microeconomic scenario, the corporate guidelines are very important and that is very clear that our priorities and you can check where we are allocating our investments, therefore where we have highest returns which is Acai and also Proximity format.

So Gustavo, I think that might make it clear on that topic of that.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Yes. It's clear, very clear of your capital preference here in this matter. Thank you.

Operator

Our next question is from Mr. Franco Aberlardo of Morgan Stanley. (Operator Instructions)

Q - Franco Aberlardo

Good morning, everyone. Thank you. I would like to go back to the debt issue and leveraging as well. I think we had a good explanation about Cnova. There was an increase in the debt levels. But when we talk about the food business, the net debt in the Second Quarter was a little bit over R$4 billion [ph]. And I'm sorry if I'm not doing the right math here. But that would represent two times the EBITDA for the third [ph] segment.

I would like to understand if you were comfortable with the level of leverage. And as you mentioned, I don't think the problem is liquidity. You have preapproved credit lines. But the level of leveraging of R$4.5 billion [ph] seems to be very high. We should imagine CGB [ph] looking for a new capital structure or you expected to reduce that leverage. And what would be the optimum level in terms of capital structure and debt net maybe by the end of the year? And if possible, can you comment on that? Thank you.

A - Unidentified Speaker

Thank you, Franco. Obviously, the debt level as we have already mentioned has deteriorated and that deterioration now is [ph] concentrated as I said in Cnova. That does not mean understanding that the debt level of the remaining areas should be evaluated as extremely high in this period where we have high interest rates. We aim to improve efficiencies especially of the working capital.

In this quarter, specifically, we make different decisions to take into consideration the industry reality that is we voluntarily stop inventory. This is a tactical decision or the level of leverage that we have seen at the end of the first half of the year is a level that has the capacity or the possibility of being improved by better improvement in the working capital about everything else.

Now, for us, it is important to have a great capacity of liquidity which we have. As I mentioned in my presentation, we have a 7 billion reserve of mobilized cash. That does not mean that we have 7 billion in cash. But we have that amount that can be available to us from one day to another. And the moment we find ourselves -- and this is the most important and I could also say that we, at every quarter, look for more efficiency in the de-leveraging, more efficient than the prior quarter.

Although, this was not the case in this specific period, we do not find ourselves concerned about that level of leverage that we found at the end of the quarter. Thank you very much.

Q - Franco Aberlardo

And do you have a specific target? Any guidance that you can provide us in terms of leverage or reduction, that is, when do you see that you really have the -- improving the working capital and also the EBITDA so that you can improve the figures? So when can we see the results? And a second question, please, a very simple one, about the 400 million in payment for the point of deal [ph]?

The 400 million specifically for point of deal [ph], is there anything else there? Is it only cash impact [ph]? They're not impacting results. It had already been provisioned. I just would like to understand the accounting for that.

A - Unidentified Speaker

Let me address your third question. Extraordinary payments of around 400 million are payments for each -- the effects on PNL [ph] have already been provisioned. So in the quarter, we only see the cash effect [ph]. The three-fourth of that amount approximately are directly related to Morzan [ph]. And other extraordinary payments are related to indemnities that are nonrecurring for different reasons. And they're broken down in smaller amounts, very scattered.

Franco, we have goals, both from Multivarejo in order to reduce working capital also Via Varejo has used as I said initially. We have prioritized sales and we did some acquisitions that were convenient. So we also have a potential to reduce working capital.

And as Christophe has mentioned and obviously here were defined on the approval of both businesses combination that will have to have the approval of independent committees and just after that we will be able to work on our inventories.

But also we have an important potential and working capital after the combination of online operation and brick-and-mortar operation. All of that is clearly defined for us that the figures are defined but we cannot disclose that.

Q - Franco Aberlardo

Okay, that's very clear. Thank you very much.

Operator

The next question is from Guilherme Assis [ph], Brasil Plural. (Operator Instructions)

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon. Thank you for taking my question. I would like to go back to some topics that we mentioned during this call.

This is more related to sales pickup and the same-store basis. It is slightly challenging for us to identify the right response to these initiatives in terms of calendar effect and maybe the macro view is also more confusing but if we focus on the most recent months of the third -- of the quarter or maybe June which has a lesser seasonal impact.

What should we expect to see? Do you believe June will be a good proxy for the expected run rate for the same-store in the second half of the year? Do we expect to see any acceleration? And could you also talk more specifically about same-store sales in Multivarejo segment in July.

Another question is, what about those acceleration, the potential same-store sales acceleration, do you think it will be enough to bring operational leverage. So far, we've seen that it hasn't happened yet. So if we exclude the tax in that or gross margin, the better margin for Multivarejo is still pretty low. So when do you expect to see the operational leverage to begin to generate an impact so we can actually have a flat margin or maybe even some gains in EBITDA margin for Multivarejo?

And a third question just to be provocative maybe, I understand we started with several promotion initiatives. The first one started in March and you have the rollout in April with one to two saving steps and then we have the Hiper Faire [ph] and now the lowest price. Is it right to assume that this is getting closer to everyday low price? If I understood you correctly, consumers now can buy all the product basket with some of these promotions or big sales, could it be considered close to everyday low price? These are my questions, thank you.

A - Luis Moreno {BIO 21181673 <GO>}

Many questions. First answer, this is not the same as everyday low price. There's just high/low on a program scale.

The benefits of high/low and DP [ph] in terms of what is easier to diagnose and easier to plan and coordinate with our suppliers only have one product by category with a same level of discount. So we have sales multiples that can be foreseen. High, low but fully coordinated with our partners/suppliers.

The launching of the three initiatives did not happen by chance. It is not that we decided to embark on one and then we thought about the others. The three initiatives have been planned from the very beginning and like I said before, the combination of the three initiatives effectively allows our customers to have the full basket with good levels of savings compared to what they would find at a wholesaler.

So I invite you all to put it to the test. Use our flyer for one through three, take our products from the lowest price, check our prices for hyper-fair and do it yourself. Take it to the test and try our new way to save. Whenever we radically change a value proposition, it takes a while for the payoff curve. It takes a while for customers to grasp the message.

Once the strategy is already implemented, now we want to expedite not new initiatives but try to speak -- To speed up our customer's perception of the new reality and we believe there's process of recognition or perception might take from three to six months until they have full perception by our customers.

We had similar initiatives in other countries and we're very confident about the progress that we'll have here matching precisely our forecast and what we saw for this kind of program in the past.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you, Luis. If I might add to the question, you mentioned it would be a program high/low and it will be easier to manage

In my mind at least, I think that managing a thousand SKUs that change every two weeks and that you have to negotiate with suppliers, I understand there is a partnership behind it but suppliers and products are constantly changing. So performing it at the store level, what do that entail a high management demand in terms of negotiation and store operations?

For instance, if it were everyday low price, you already have the terms agreed with suppliers in order to run your business. I understand there is a problem in Brazil, it didn't work but in terms of management alone, if you already have this previously agreed and you always have it at the supermarket, isn't it easier to manage if it were that way?

A - Luis Moreno {BIO 21181673 <GO>}

First of all, we're also doing progress in our partnership suppliers. In the first step, negotiations happen on a monthly basis or every two weeks. And once our new process becomes more mature, then we can perfectly plan six months ahead and then we can plan and coordinate with logistics, bring in efficiency, better cost with suppliers and our own efficiency and cost.

As to the store, we have a thousand SKUs and this is lower than the total number of products we have in high/low in the previous mechanics. We had almost 4,000 SKUs not on a structured basis by category and levels of discount might vary from 2% to 30% but it was not consistent or systematic and customers could not foresee the kind of offering he would find at the store.

Now, these offers are predictable for customers as well, not only suppliers and partners. They know where they will find and choose the way they can save. One, two, or three and by category, the customer can choose what he wants. And this goes for the leading brands, Brazilian brands and in some categories when the brand is not the most significant, they can also choose the cheapest program.

But lowest price program is not high/low, it is EDP. That’s why we are combining the benefits from both programs in order to create a new way to save an extra.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay, got it. What about same-store performance? Could you give us some color about Multivarejo and when do you expect to see a positive leverage at your operations?

A - Luis Moreno {BIO 21181673 <GO>}

Same store performance is very -- it has a lot of progress. This quarter, we can constantly see positive growth.

I would say that month-on-month, a 100 to 200 BPS [ph] or progression on a monthly basis and that's sustainable by the way and we believe we still have a lot of upsides until we get to the whole payoff curve or customer perception on average around six months.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Do you expect to see this in July as well?

A - Luis Moreno {BIO 21181673 <GO>}

This progress? July sales are even better than June. We are moving in the right direction definitely, positive results.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you.

Operator

Our next question is from Richard Caffcard [ph] from Badescu BDI [ph]. (Operator Instructions)

Q - Richard Caffcard

Good morning. My question is about hypermarket remodeling and renovation. Is it still a significant strategy or are you focusing more often now in one, two, three?

Do you think you need more investment in hypermarkets, in renovations considering Carrefour is still aggressively spending?

My second question is to Belmiro. Belmiro, about same-store sales for the Second Quarter, how much was assisted by the higher inflation rate in the short-term for some food commodities? Thank you.

A - Unidentified Speaker

With regards to renovation, in the First Quarter we keep on doing renovations but what we changed in the concept is that rather than having full remodeling, we learn from previous cases that renovations have more impact on specific categories.

And now we're moving forward with the rollout of these specific categories. For instance, low mobile phones or textile products that I mentioned before will work in our selective remodeling of some store areas that have more upside vis-a-vis change in equipment and also the goods display.

A - Belmiro Gomes {BIO 18107864 <GO>}

Thank you for your question, Belmiro speaking. You're right. Actually we were assisted by inflation particularly in commodity's case.

Commodities usually oscillate [ph] a lot price-wise. This year we had a combination of significant commodities generating an impact of two percentage points for the same-store percentage during Q2.

Q - Richard Caffcard

Okay. Thank you.

Operator

Next question is from Giovana Oliveira [ph], Credit Suisse. (Operator Instructions)

Q - Unidentified Participant

Actually, this is Tobias [ph]. I have a question -- that was not clear for me. The change that you had in these income fees, there was a change that represents adjustment related to this here but from what I was able to understand from now on, this has changed.

You were now posting that gross margin in a different manner, did I understand it right? So looking at the segment business if that makes sense, we are going to have a negative of the one, two, three, bringing down the margin and Christophe said that in normal conditions, the margin could be pressed because of that. But on the other hand, we have that accounting change that will be helping you from now on.

So there are several moving pieces in the margin, I want to know if my understanding is correct and how we can balance out those forces?

A - Unidentified Speaker

Good morning, Tobias. And thank you for your question. In fact as we have already mentioned, the tax credit in fact they do not refer to a change in accounting but rather taking credits that were not taken before.

It is something that we did not do in the past. Considering that those have been validated and I want to repeat myself, or big [ph] as we have more than -- and committed and so on. So we started taking those credits just as the market usually does.

Obviously that is going to have a positive impact in future margins. If that is going to offset the negative impact then no commercial strategy, Tobias, I don't think so but to give you an idea of how much we are going to offset here, I cannot do that and you know that considering our current context it is very difficult and we cannot give you guidance for gross margin. We need to have certain control on that.

So we won't give you guidance of gross margin. So to make it clear, the negative impact on extra banner, that is going to be partially offset by the effects of those tax credits in the future. But margin improvement actions are more in those operating fine adjustment in the commercial strategy rather than in the strategy -- in the tax strategy intact logic. So thank you.

Q - Unidentified Participant

And I have another question. When I read the release and I saw the 50 million provision for labor in the G&A [ph] and Multivarejo, I think it has been mentioned before, are all those 50 million nonrecurring?

So if we look ahead, we should get that information that expense, the same-store sales they're basically flat or even dropping year-on-year? What really happened was if there is a flat year [ph] that seem to be nonrecurring except maybe a matter of the stores [ph] because they did have a performance or the malls.

A - Unidentified Speaker

Tobias, in terms of labor contingencies, it's never totally nonrecurring and we know that there are always -- there is a turnover and that generates naturally a high number of labor demand, labor -- demands that are rather stable or flat.

But on those 50 million, that is an effect there, that is even broader than what -- that is larger than what we usually see because remember that the headcount adjustment were massive in the first period of the prior year. You know that there is always a period of time when the employee leaves the company up to the initial possible lawsuit.

And that has to do with the strong adjustment that we have done in the first period of the year. So I should say that part of that is recurring and part does not -- that is not recurring. What I can tell you is that small labor contingencies cases whether in Multivarejo but also I could say to other areas, they have a policy where we come into an agreement before really going to the final court and that is already working in bringing results in Multivarejo and Via Varejo.

Q - Unidentified Participant

Thank you, once again and I have two final questions here. Sometimes it's hard for me to analyze the monthly transfer same-store sales because I don't know what is the comparison-base.

So when I saw the 9% growth in June, I do not understand if the other base is good or bad. So I understand that performance should improve now in July. But the basis are good basis, are they bad basis? I just would like to better understand that so that I make it clear.

And two, what is happening to non-food that is to have 20%, 25% of sales of extra? So thank you very much.

A - Unidentified Speaker

Yes. We understand that these basis are the basis that we always use to compare our sales performance, there is no distortion here and that's why we believe that the performance that we are having in the same-store sales on a monthly basis is really a good performance because these are normal basis that are not generating any distortion.

About non-food, this is our focus area in the next month. And also we are working with commercial areas. The areas we identified a few opportunities, we are working with a team and we expect to have an improvement in the second half of the year. Even taking into consideration the context of the country and basically the non-food categories that are taking the highest hits because of the economic scenario of the country.

But we do intend to have better performance there and a few of the initiatives we'll have we might share them with you in the future.

Q - Unidentified Participant

Thank you very much.

Operator

The Q&A session is concluded. We would like now to turn the floor to the company for their final remarks.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

So to conclude, I just would like to stress what I have said in my initial remarks.

And that is that the team has been working a long time to adjust businesses to the market's reality and that we see -- and probably you have seen as well after listening to our presentations that we are starting a process to recover sales growth with also increase in market share.

As I said, Peter and Moreno also have mentioned we still have opportunities both in terms of expenses, also opportunities and we already have goals for working capital. We talked specifically about it. There are smaller opportunities when we do an internal analysis of the company but for us, what we have and it has also been said during the presentations are opportunities of final tuning in our commercial strategies for each one of the business units.

Moreno was very specific about it, a very positive participation of our suppliers and the process. We understand that this is a good development and those fine adjustments that are being identified based whether an improvement or small improvements that are then captured after a customer's inputs or by the team's experience, we believe that this will allow to keep on following the sales growth trends as well as profitability increase.

We are very confident that the diagnostics were very good and the plans are following what we have been able to identify. Obviously there are small adjustments, improvements that can be done a long time. And that the team that is here gathered is fully prepared and ready to work.

So once again, thank you all for being with us today. Rest assured that we are confident not because there is any other external factor but we are confident because the team has a strategy have a plan and the plan is showing a positive trend.

Thank you very much and good afternoon to you all.

Operator

The conference call for GPA is concluded. The IRR Department of the group is available to address any further questions you might have.

Thank you very much for your participation and have a nice day. (Operator Instructions)