Q3 2014 Earnings Call

Company Participants

- Lebanon Miranda Barroso, Chief Executive Officer and Chief Financial Officer
- Marcelo Rizzi de Oliveira, Investor Relations Officer

Other Participants

- Andrea Teixeira, Analyst
- Guilherme Assis, Analyst
- Gustavo Piras Oliveira, Analyst
- Irma Sgarz, Analyst
- Ricardo Boiati, Analyst
- Robert Ford, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning ladies and gentlemen, and thank you for waiting. Welcome to Via Varejo's Conference Call to discuss the results for the Third Quarter of 2014. This event is also being broadcasted via webcast, which can be accessed at www.viavarejo.com.br/ir, with the respective presentation. The slide selection will be managed by you. There will be a replay facility for this call on the website.

We inform you that the company's press releases is also available at this IR website. This event is being recorded and all participants will be in listen-only mode during the companies' presentation. After that there will be a Q&A. At that time, further instructions will be given. (Operator Instructions).

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Via Varejo's management, and on information currently available to the company, they involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future.

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

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

Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Good morning, everyone. And welcome to Via Varejo conference call for the third quarter of 2014. This call will last about an hour and we will start with a presentation of our earnings results, and then we'll have a Q&A. I'll give the floor to Mr. Lebanon Barroso, CEO of the company.

Lebanon Miranda Barroso

Good morning, everyone. These are the earnings for the third quarter of 2014. This is a quarter that considering the seasonality in retail, it's a quarter that has no special day. It kind of repeats the cycle of the first quarter where net revenue grossed 0.7% compared to the third quarter 2013, because we -- again didn't have any special days for retail. And it is a quarter where we -- in the, during the year we prioritized in the first and third quarter, we work to improve profitability, while in the second and fourth quarter when we have more special days, we work on sales volume maintaining the level of profitability of the company.

Net revenue of R$5.3 million, our gross margin was 32.8%, increase of 1.4 percentage point and a 5.4% growth in gross profit. This increase in gross margin comes from operating efficiency gains, both in processes and in revenues. We maintained our competitiveness in the market. But we expanded our growth margin by efficiency gains. This also translates in our operating margin in the adjusted EBITDA margin of 10.1%, which is an all-time record for us. Increase of 18.4% and 150 basis points when compared to the third quarter of '13.

Finally, adjusted net margin; up 4.3%, another all-time high increase of 24.3% and 8.8 percentage point improvement versus the third quarter of '13. I will turn the floor to Marcelo Rizzi who is going to mention the highlights of our earnings.

Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Please go to page three of the presentation starting with net sales. We had 0.7 percentage increase in the third quarter, '14 year-on-year in the same-store sales concept, 4.8 --, 0.2% in the same-store sales concept, plus 4.8%. But company closed 32 stores in the second quarter of '14 in compliance with CADE, the Brazil's antitrust agency. Our net sales increase without the closing of these stores would have been 2.3% relevant 0.7% as we reported in our earnings results.

In the quarter, we opened 15 stores, of which 11 were Casas Bahia, and 4 were Ponto Frio banner in the 9 month of '14, 29 new stores were opened for a total of 55 stores, which was a significant capability of expansion. Of the 29 stores, 13 were in the North East, North and Midwest and Brazil, which shows a clear direction to expand in areas which shows the highest economic growth and that have the lowest penetration of household appliances.

As in the opening highlights Casas Bahia store, with 1,670 square meters in Complexo do Alemao, Rio de Janeiro, 2,000 people attended the official opening. This shows the importance of these communities for the economic and social development of the country. As for profitability, on page four, we show a gross margin of 32.8%, 140 basis points compared to the third quarter, '13, highlight goes to improvements in logistics and assembly, synergies, services, financial services and in the categories mix, counting on Smartphone.

As for selling, general and administrative expenses, there was a reduction of 0.1% in the quarter, highlight goes to discipline in expenses management, efficiency improvement in the stores and logistics in our delivery services, we were able to neutralize inflation effects in the quarter which was higher than our sales growth.

We achieved an 18% increase in our adjusted EBITDA, and we reached a historical record of EBITDA margin of 10.1% in the quarter. In the first nine months of 2014, 9.3% EBITDA margin, which is more than 110 basis points compared to the whole year of 2013. As for working capital management, we are on slide five now, we had a significant improvement in our results of almost 650 million, in the gap between inventories and suppliers. And this results from a better inventory management and better negotiation with the suppliers.

On page six, we show that these efficiency improvements and working capital improvements brought along an improvement of almost R$1.4 billion in cash and cash equivalents, reaching almost a R$3.5 billion. In net cash, R$2.4 billion, and we do have a net debt over EBITDA, which is very close to zero, which gives us a solid cash position to capture new business opportunities in the future.

As for the financial result, we have net financial results to the percentage of net revenue, minus 2.8%, growth of 2.3% and increase of 2.3% in net financial expense from the third quarter versus increase of close to 29% in the CDI rate in the period. We had a better cash position and with the financial expenses, we had a 20% increase compared to a 29% of growth in the CDI rate, because of a better management of receivables in our treasury.

The financial revenue was plus 60%. So with better capital, working capital or management, we were -- and operating efficiency gains, we were able to increase our adjusted net income 24% by achieving a 4.3% record net margin in the nine months, 3.6%, which is higher than our net margin in the whole year of 2013.

On page 8, we see the continuous margin improvement, our main financial indicators. Starting with gross margin, 31.7% in the nine months of 2014, higher than the whole year 2013, we reached the lowest level of operating expenses even without considering the dilution effect that we have in the fourth quarter.

We've reached the lowest historical level 22.5% in the first nine months, in EBITDA 9.3% in the nine months of 2014 again, 110 basis points higher than the whole year of 2013, 150 basis points higher earning an income of 3.6% of net margin higher than a year, the full year of 2013, a 38% [ph] increase in the net income in the nine months, which shows the company has an ability to deliver the results. I will turn the floor back to Lebanon, who will talk about the outlook for 2014.

Lebanon Miranda Barroso

The first quarter is the main quarter in retail, we have traditional days, the holiday season, Christmas. And we were the first in Brazil to use Black Friday sales and it was restricted to e-commerce, now we brought it to the brick and mortar stores. We were so successful last year, that we once again tried to publicize in the media, to advertise in the media this campaign. We are prepared for the upcoming events, retail events.

We've managed to have a very structured negotiations with the industry. So let's say [ph] our people on marketing, our media people all are on the same page. We have a plan designed so that we can have an excellent performance during Black Friday promotions and Christmas. Our outlook regarding our growth plan, well, as mentioned in the beginning of the year, in 2014 that we will open 17 new stores.

And our strategy is one, to strengthen our position, consolidate our position, where we already enjoy a stronger footprint and to grow more our installed base in regions that show a strong growth focus primarily in the North and Northeast. We will continue with our continuous improvement plan for operating, for our operations coupled with financial discipline. We are very happy with the levels of profitability that we achieved and we will continue to look for more efficiency and more competitiveness. We need to be competitive, so that our customers can enjoy the best prices and the best loan conditions, best delivery condition.

We have invested a lot in improving our operations. Customers now receive our products faster. We had about 30% reduction in complaints; our logistics coupled with our assortment of products have orders to see it an improvement in perceived quality.

Quality also results from synergy with our other businesses; we are trying more and more to using multi-channel strategy.

Customers today do not use one single channel. They check goods in the virtual world, in the Internet and then they buy in the brick and mortar stores and vice-versa. So, more and more we will be implementing the multi-channel strategy. Again, customers look for goods online, then go to the brick and mortar stores and buy the products or they can go and see, touch and feel the products in the physical stores and then buy online. So we need to be prepared for that.

And finally, we enjoy a solid cash position today. In our balance sheet, we tried to have financial discipline. So to have a solid balance sheet, this is fundamental for mid to long-term negotiations with suppliers. And so that we can analyze opportunities of growth. The visibility of our expansion is very much based on our ability to have a strong balance sheet and a solid cash position.

I will turn the floor back to Marcelo, we can now open the Q&A session.

Questions And Answers

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

(Operator Instructions) The first question is from Robert Ford from Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. Good morning, everyone. Congratulations on the results. Could you talk more about the payment book results this quarter please? I would like to have a better understanding of your expectations.

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Hi, Bob, Marcelo speaking. We are keeping our eyes open on the liquidity but our results in Q3, 2014 are very much in line with year-on-year results. Like I said before, we're keeping our eyes open and that's why we improved our controls in payment books. Several measures have been taken, for instance, over 300 call center positions to renegotiate with our consumers. We have more centralized our payment book positions, we made changes pay and buy performance and we have an additional pre-approved credit line for delinquency customers.

So all these initiatives altogether allowed us to deliver the same agent level that is very similar to what we had in 2013. We can check this in explanatory note number ten in our release. Thank you.

Q - Robert Ford {BIO 1499021 <GO>}

Could you talk more about Ponto Frio performance and payment books in Ponto Frio, please?

A - Lebanon Miranda Barroso

Bob, we're just thinking [ph], we don't see any problem in terms of increased delinquencies like Marcelo said. All the actions we've made, have made us more assured in terms to maintain our historical delinquency levels and also receivable levels with better and better properties. As to Ponto Frio, we had a pilot process, for payment book in Ponto Frio, the response was positive and right now, we also have the rollout for the stores and we expect that by year-end, we'll be close to 100 stores, Ponto Frio stores with the payment book option.

As we can see Ponto Frio, and by the way, I'd like to say that this is a great opportunity for us. When you look at the figures of the quarter, or in the first nine months of the year, in the quarter, the net sales revenue shows that Ponto Frio which accounts for 22.5% of revenues, the growth rate was negative at 6.8%; Casas Bahia which account for 77.5% of revenues, increased by 2.7.

In the first nine months, Casas Bahia was 6.6 and Ponto Frio is negative 0.4 [ph] so we can see excellent opportunity and this is what we're investing right now, we want to analyze

Ponto Frio and implement properties for improvements in our store complex, so we can really reverse the trend of negative sales, Casas Bahia is growing very strongly, any time, any seasonality any we also want to do the same with Ponto Frio, this is our strongest focus for the coming months and 2015.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. And once again, congratulations.

A - Lebanon Miranda Barroso

Thank you.

Operator

Our next question is from Ricardo Boiati from Bradesco.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Good morning, Lebanon and Marcelo. My first question is about sales performance, I wonder if you could give me a comment about the breakdown in terms of goods and financial products. Financial products are over performing goods, so when do you expect this trend to become flat or stable having the same growth rate, for instance? And in your analysis what is the impact of this performance, of financial products and gross margin? Financial products usually account for the bulk of this improved gross margin, is it right to assume that maybe this is the main reason for this improvement over Q3 or not? That's my first question. Thank you.

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Hi Boiati, Marcelo speaking. In terms of sales of services, you're right, it grows more than good sales. But that's because in Brazil there is a low penetration compared to more developed countries as to the gross margins. Improvement really stands from a series of improved efficiency initiatives. For instance, think about logistics, we significantly increased the level of regionalization, we lowered 60% of the dependence on the DC in (inaudible).

In other words, all high demand products at the stores are directly delivered by supplies for closest DCs, closer to our stores. This significantly reduced our costs and lead time.

And DC has implemented new sorting properties also optimizing our productivity. And in fleet our outsourced level is greater than 65%, we changed 75% and we also changed our logistics, so we trained all our operators we have trained more than 1,700 staff and we were also awarded for best performance. And lastly, gross margin has assembly, which is also important. We increased our productivity at 15% with automatic logistics routing of assembly, just to give an example, the assembler has the route of the next day at home in his tablet, and it's automatically updated from the moment assemblies are performed. This greatly improved our assembly productivity and you can see the positive impact in our gross margin.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Thank you. So if you were to rank the major sources of contribution to the gross margin, this is basically what you have like logistics, synergies, assembly mix?

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

We don't have any great highlights, but logistics growth in sales and services, freight, delivery fee, assembly fee, synergies with the group and also category mix and high number for smart phones. It does have a strong impact on gross margins. Can I just make another comment? We are heavily investing to know consumer behaviors better, and also analyzing customer traffic at the stores. Particularly in terms of technology and sales, working on the level of sales conversion. We will be keeping more focus on our stores focusing on the processes and technologies with implemented.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Thank you. Just one last question if I may, about demands. I think it's very clear that everything related to company management, the results are very consistent, but demand is not responding very significantly, I know that the quarter was perhaps a little bit distorted.

June was very poor due to the World cup and also subsequent events. So how do you fuel demand and the consumer interest and the ability to bend any significant improvement that might have an impact on Q4? And what about the outlook for 2015?

A - Lebanon Miranda Barroso

Our expectation, about the four quarter, this is the main quarter for retail. This is the quarter where we have two significant seasonal date, like Black Friday and Christmas season. We are gearing ourselves ready for this. This is very important consumption wise, because we have Christmas bonus for instance and we no longer have the effect of the World Cup.

And this year, the World Cup did have a significant impact in July and in August sales were improved, September were much better, and now for Q4 as a whole, I'd like to remind you that the fourth quarter of last year was very strong. That's hard for a comparative purposes, but despite of that, we take the challenge and we want to have the same level of efficiency with top-quality delivery to our customers.

So we are excited and we believe this market has been through tough times, but we also believe that over time, consumers will increasingly become more confident, coming back to historical consumption levels. So we do few -- we have the feeling the fourth quarter will be positive, Boiati, for 2015 we believe we do have room too -- for consumption and resumption. We have more payment loans, we had an increase in wages and consumers who did not spend before elections in July and August, we don't believe they will stop buying forever. And the Rial depreciation will possibly prevent them to travel abroad and therefore spend more in Brazil. So we expect to see stronger sales next year and we'll be benefiting from our gains of efficiency as standing to be very competitive in 2014 and 2015.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Excellent great input. Thank you.

Operator

Our next question comes from Tobias Stingelin from Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning, Lebanon and Rizzi. A follow-up question, what about October? You didn't give details, but you said that you expect a positive fourth quarter? Could you give us a flavor of how performance was in October?

And my second question, I would like to understand we probably have in the margin and in the top line impacts of the synergies with Nova, but I guess that Lebanon mentioned the multi-channel strategy, freight deliveries logistics and I'm sure that you will probably be benefiting from the infrastructure that Via Varejo already have.

So I would like to know, what about the agreement that should be signed in addition to the logistics in multi-channel, people buying online, store pick up, anything that you could add about that. And my third question, what is the average interest rate in your payment book, this year compared to last year?

A - Lebanon Miranda Barroso

Tobias, good morning. This is Lebanon. Talking about the quarter, I will speak about the quarter and not specifically about October, well we are encouraged by the performance that we had in October, and we're preparing for a strong fourth quarter. In terms of comparison with the prior year, remembering that this is a challenging quarter, because repeating the performance of last year is already our challenge because last year was very good. We will presume, stimuli for demand by highlighting our quality advertising, media, logistics, operations, will all be geared, toward a very positive fourth quarter. Even knowing that the base of comparison is quite strong. What happened in October sets us for a good fourth quarter, I'm going to turn the floor to Rizzi to answer your second and third questions.

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

As for the synergies with Nova, to be used in terms of logistics, we are already bringing multi-retail GPA to the route, fix the costs with Via Varejo. In the DC of (inaudible) we're running a pilot project for joint management of the common goods, they have been sorted only systematically, automatically and delivery is done in the same truck. Next year, we should have joint management of these common goods in all of the DCs of Via Varejo, that's what is click and collect. We should implement click and collect next year. We should have four stores this year as pilots for click and collect.

And as for joint purchasing and procurement that we are procuring together with Nova. This has been roughly talked about.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. But once you have to settle the accounts, among the players because (inaudible) the infrastructure is basically the aberrational.

So it's good to dilute the cost, but how are you negotiating this with GPA, and with Cnova? Because there was some kind of negotiation with them in terms of logistics agreements, right?

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Joint procurement has been defined and communicated. Logistics are an implementation, which requires processes, physical facilities and technology. So that is still underway.

But the main concept will be communicated in a timely basis when we have something to report. But the concept is to recover costs and track costs among the businesses. But we haven't got anything objective to inform the market yet.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So you're working with this, in the same way as you did with the top line and you will disclose the information when you have a final model? Is this a fair statement?

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Yes, we always want to have something balanced, which is positive and beneficial for the whole group. And always following our governance and principle. This implementation involves change in processes and in physical facilities. This is not to be expected in 2015.

We are working on all fronts, we are planning, we are detailing everything and we will figure out how to divide industry with the cost accordingly. We will talk about this later. Tobias asked for the interest rates in the payment book, it didn't change much in the third quarter.

It is important to remember that our sales using payment book remained stable about 15% of total sales, compared to other means of payment and forms of payment. So no change.

Q - Tobias Stingelin {BIO 18290133 <GO>}

But on average, I think that actually was 5.5 and now I guess it's more towards 6%?

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Last year it was about 5.5 and today, this year, it's between 5.5 and 6.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much.

Operator

Our next question is from Andrea Teixeira of JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello. Good afternoon or good morning. Marcelo, Lebanon, thank you for the opportunity. I would like to go deeper into financing. We've heard the disclosure yesterday, I think you mentioned 100 basis points in some of the products for financing alone. But on average, last year it was about five and now I guess, you mentioned 5.5 or 6.

Any room or any possibility of transferring this light increase in the base rate and what are your thoughts about it and I'm wondering if you'd comment on the new level of delinquency and credit ratings according to the latest data? If you think of a snapshot of the quarter, the numbers sound -- seem to be very sound, but what happened in between? So I wonder if you could make comments.

And also how you've been negotiating with the suppliers now, considering the change was relatively sudden. And took by surprise, took us by surprise, because it was so fast. So are you negotiating anything with the suppliers, for instance? Is there any room for that, and you leave way, or would you leave it for next year? The second question is about Q4. You seem to be more confident now, but apparently the level of inventory for Black Friday and for year-end tends to be more conservative. Could you explain that better or are you working on more prompt orders I know this is not possible for wide line, so what do you have to say about the timing of this inventory?

A - Lebanon Miranda Barroso

Andrea, good morning, Lebanon speaking. Let me talk about interest rates, Selic and then Marcelo is going to make his comments.

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

I'm sorry, I did not understand your question. About negotiation with the industry, but let me answer the first two points, first interest rate, the increase in Selic yesterday. We are not interested in increasing our interest rates at the store level. We believe our payment book level is according to the market, this is well seen by the customer, we don't think we have to increase due to Selic's increase yesterday. In terms of inventory level, your question is about a comparison comparing to Black Friday yesterday. By the way, our inventory level is even higher than last year about R$350 million, so we're very well positioned for Black Friday, for Christmas season and we are even working on other categories and we are ready for all categories. The main sales categories as we speak, and by the way we are even working with the industry for inventory replenishment should we have a positive surprise that goes beyond our status.

So we are ready to repeat what we did last year, which is quite a challenge. And could you repeat your question about negotiation with the industry. I don't think I got it correctly. Hello? Andrea?

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi Lebanon. In terms of negotiations. I understand for white line, you don't have so much flexibility in some white line products, for replenishment purposes within the same quarter. Just like to understand if you are still conservative as you were in the first nine months, with a very mere growth. Do you expect to continue with this forecast, so to speak of a flat top line in the fourth quarter or as you said before, do you have a lot of flexibility inventory-wise should we have a positive surprise?

A - Lebanon Miranda Barroso

So more specifically about white lines, in addition to last year we have over 100 million compared to Black Friday last year in the second quarter of this year over 200 million. So, this is very, very adequate considering seasonality down the road. Now, Marcelo is going to answer your other questions.

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Hi, Andrea. Let me make some comments about delinquencies. When we break down our delinquency over 30 or 30-60, 60-90 days overdue, we don't see any worsening vis-a-vis the third quarter of 2013 breaking down by portfolio, this indicator quarter-on-quarter went down 0.1 percentage points due to our credit operations and payment book activity. So we are keeping our eyes are open, we are monitoring, but we are also improving our controls. So in that sense, there is no worsening in our figures.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And can you elaborate more on synergies? I think you did something huge in terms of optimizing, so just to have a better understanding, the margin is quite interesting the EBITDA margin. What about the future? Is it right to assume that part of it will be reinvested, that the current margin level is something you feel comfortable with, or is there more room to improve margin additionally, I'm sorry to insist on that, but, there are many impacts that can result from this margin.

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

In terms of margin, we are happy with the current margin levels we have today at the company. However, we also consider the possibility to expand our efficiency both in terms of cost and also revenues. However, this will not be translated into margin expansion, but rather additional gains will be translated into productivity to improve our sales. We don't give a guidance for margin, neither operating margin of net margins, but it does make sense according to our strategy that these margin levels, the margin levels we're happy with and strategically positioned and as to the future, we want to reverse the gains, we have gained the efficiency. There is a process of continuous improvement, investments in several areas that will be translated into gains but we also will be reversed for sale.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Congratulations on the results. Thank you.

Operator

Our next question comes from Gustavo Oliveira from UBS.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Hello, good morning everyone. If we could come back to Ponto Frio, there is a slowdown in sales and even a steeper growth and also a gap with Casas Bahia, we always knew Ponto Frio had lower sales. What are the main initiatives you believe you have to do to improve the picture? I understand that pay book roll out in Ponto Frio can be of help, but anything more structural that is affecting the business? What else has to be changed in order to have flat sales in this operation?

A - Lebanon Miranda Barroso

Gustavo, Lebanon speaking. Good morning. Thank you for your question. This is a great opportunity for us. Ponto Frio is a channel that gives us the chance to check many details behind its structure. There are some structural differences, compared to Bahia, Ponto Frio stores, are smaller than Bahia's, and a category of that is very strong in Casas Bahia might not be so significant in Ponto Frio, I'm referring to the furniture category. In terms of physical area, Ponto Frio is more targeted to IT and innovation. Over time, and by the way we have more than 300 stores in Ponto Frio and it takes some time for implementation. But you increasingly see Ponto Frio more oriented to consumer experience in terms of trying and testing products and over time, we'll give you more information. But we have concept stores and position is very much targeted to new launches. And together with the industry we want to show our customers the most current and high-end technology.

And we are carrying out a test in Ponto Frio for example, it is the sale of tablets. This is already happening in our store in Sao Caetano, the sales person uses a tablets and then they can have more efficient sales. The salesman gives more detail on the product, process the order via tablet and it brings a lot of efficiency. It saves a lot of time, only one-third of the time is used to process the sale. But you can be with the same level of information as our customer.

Customers come with a higher and higher level of information about the products once they get to our stores, because first they check online and they have all the information once they get to the store. So we need more training to our sales people. And this sale, well the sales person process the order, but today the customer will have to go to the cashier to pay for the product.

But in the future we want customers to pay and do the whole transaction, the full transaction with a salesperson via tablet, including extended warranty or level of service. So we want to work on the point of sale. Work on customer training and also, I mean not our customer but sales force training think about store experience.

And we also want to check all the stores that need more investment in remodeling and assortment. And it happens micro market to micro markets we have been working on all of our stores and also competitors in order to come to the right format. We have made in-house studies, and we're doing implementations, particularly over 2015.

These are the main points so that Ponto Frio will shorten the sales gap.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Lebanon, now, thank you. Okay, thank you for the explanation. Now with this new format, this new concept, do you believe your whole or all your stores are ready to run under this new format. I understand there are some stores that need to be remodeled as you've said before. However, do you foresee any store closings? Does it make sense, you close in a side and then you open in another city, and you invest more in Casas Bahia openings even focusing strongly investment wise in Casas Bahia. So what about the structural part opening and closing stores?

A - Lebanon Miranda Barroso

Store opening, according to our opening plan of 70 stores this year, the majority of the stores well, precisely Casas Bahia and why is that? Casa Bahia is positioned or target social bracket, B and E, and Ponto Frio goes from A to C. However, this is not an absolute truth. We have some regions for instance in the Northeast and Casas Bahia will go from A to E social bracket.

That's why it varies and we have to study market to market this year, for instance, the majority of stores opened, 80% of the stores are Casas Bahia because this is positioned in the fastest growing social bracket. Which is classes C and D in Brazil. So this explains growth.

As to the current existing group of stores, like I said before, we're studying market to markets, in order to check the right store positioning and on doing so; first of all, we don't feel the need to close any stores as of (inaudible) opposite, we see the opportunity to improve experience in these stores. And once we implement this, we don't have significant effect to recover our sales at the company as a whole. And this can be translated into significant effect, even similar to what we have, when we have an acquisition without taking all the risks and all the efforts inherent to the merger. So this is great opportunity, but it's also time consuming. When we speak of more than 300 stores, it takes a very proper study and planning.

So we can be as fast as possible but with 300 stores, even if you are really fast, it takes 2015 and '16. So that's a great opportunity as we see it.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

One last question, under the same topic Lebanon. I think you mentioned something interesting. You said some Casas Bahia stores also meet the needs of higher social brackets like A and B. Is it focused on Casas Bahia and stores A and B and maybe the majority of that cater to see any social brackets in another fastest growing. Do you see similar slow down? Similar to what you see in Casas Bahia and Ponto Frio or not or Casas Bahia A and B are performing better than Ponto Frio? That's my last question, just to have a better understanding of this impact, or the impact of social bracket.

A - Lebanon Miranda Barroso

This is so interesting. And we really study hard, consumer behavior. Today it's very difficult to have such an obvious settlement by social brackets, we use it for communication purposes, just to make it easier, but the social demographics, is changing a lot in Brazil. Let me give an example, we are selling Iphone at R$59 per month, instalment. So that's a product that is targeted to social bracket A, but it's no longer like that. So now we cannot be so objective, so contingent say in what Class A and B is all about.

Today, based on our conditions, for loans and payment books, and also considering the activity of the industry, which is creating more upscale, and lower cost products, we even said that today we have a class of people, people who'll start claiming for different products, regardless of the social bracket.

So it's not so oblivious, as it was before, geography can be a reason for segment, okay, if you have an upscale mall or low income mall, this does bring segmentation, but it even in those cases this is so really, I mean households and families can go to a mall that is in an upscale region, but it can come from a class E. And they go and buy in the mall. So segmentation, so (inaudible) by clients is becoming harder and harder.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Okay, thank you very much.

Operator

Our next question come from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. I have two questions. The fee services, a drop 10% year-on-year and I would like to understand that there are, what's happening, there are a number of things, there is Cnova, there are the commissions for insurance, but I would like to know what drove this revenue down year-on-year?

My second question is Marcelo's article, when you talked about the new concept, the new concept store of Ponto Frio, it seems to me that's this will bring an effect that I've see abroad when the customer goes to the store the new store, they have the product, they look and feel up the product and then they buy online.

So I would like to understand if you're taking this phenomenon into account, and are you considering overlapping of customers that you have in brick and mortor store and online?

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Thank you, Irma, this is Marcelo. As for your last question regarding online sales and brick and mortor stores, we see e-commerce growing at higher rates than the physical world. But our general structure of the group protect and issues growth in both channels.

Our target is to accelerate organic growth in the physical world, it will bring a market share, more market share and more capillarity for click and collect. Because we believe that the online and physical world will converge and acts in a supplementary way, for a growth strategy with gains in market share, will serve both the channels. Now, what was your first question?

Q - Irma Sgarz {BIO 15190838 <GO>}

The service fees and overlapping of customers but I guess you answered that already. My first question was about a reduction in services fee.

A - Lebanon Miranda Barroso

Irma, this is Lebanon. About the sale of services, we actually saw an increase. If you want more detail, please not hesitate to contact our Investor Relations team. But it is actually growing quarter-on-quarter, there was no reduction or we can give you more details later.

In this line, I'm not referring to financial services, but I'm referring to other services. But yes, we can discuss this later, but there was a reduction year-on-year. All services including extended warranty, services and other services to customers have shown a variation. But we can discuss this figure that you're talking about, we can discuss this later. Thank you.

Operator

Our next question comes from Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning. This is Guilherme Assis. I would like you to comment on your strategy. One, that you have been mentioning for quite a while about a focus on profitability, you had an excellent margin this quarter and it is a quarter with a lowest seasonality. So I want to understand looking at the next two quarter, what can we expect regarding the strategy to be more aggressive and focus on sales and comparing your competitive position.

Should we expect more aggressive price levels? Should we expect more investment in advertising? What is the expected results and what is the possible impact on margins? First question is this, my second question is about your mix. Could you give us some color on the mix categories or categories mix, what can we expect white line for example? It is an important segment and so in my opinion. And I would like to know if you agree with it, the sales were negative year-on-year and I would like to know how you see this, in other categories, household appliance, electronic goods, Smartphone, how do you see maintaining your performance in these categories along the third quarter and now looking forward at the fourth quarter? Thank you very much.

A - Lebanon Miranda Barroso

Hello, Guilherme, this is Lebanon. As per the strategy, we don't give a guidance including figures, but we can talk about trends, the fourth quarter is like the big quarter in retail, because of the seasonal days, we ended up including Black Friday sale as a great event.

So we can expect similar performance as we have last year. But with the benefit of lessons learnt, we believe that we can have even more efficiency this year given the less inflow [ph] last year.

As for the media, we have an exposure level that has been contracted in all types of media. I'm not just talking about TV spots, I'm talking about online advertising, physical world advertising so we are prepared to handle a traditionally high sales volume in this period, we're trying to sell as much of last year, which again will be a challenge, repeating last year's result would be a challenge because we performed so well last year, but we will spare no efforts, both in the points of sales with prepared people, people who are trained with the right product, the right assortment and in the media exposure, past and prime-time TV, advertising, print advertising, online everything is prepared.

As for the white lines, we already saw a significant recovery starting in September. In the first quarter, this does do play an important role, unlike in the third quarter. This seasonal events with summer we can expect more sales of air conditioning devices and spends, and we also see the Smartphone category coming strong and growing and we have a special focus on furniture. Historically, we have been disseminating the concept of furniture for the middle class households, but now we are selling higher value furniture. Just last month, we have launched modulated kitchens.

We are giving the middle class this aspiration of having a customized kitchen, and in the future, we intent to provide also the design service to our clients, so that they can have the kitchen that they need. In other words, we expect the fourth quarter with more sale events. And we will need to balance between profitability and sales increase as we have mentioned before, the seasonal quarters are the ones where we have to use all weapons available to increase sales, but always we increased sales with healthy margins for us and for our customers.

Q - Guilherme Assis {BIO 16143141 <GO>}

I know that last year important for clear that you were going to be more commercially aggressive in the second, there you were going to more aggressive in the second and fourth quarter than less in the first and third quarters. So if you take last year's a comparator, in some of the growth margins, the fourth quarter is more geared to sale events. Can we expect the same thing this year difference of margin from the third to the fourth quarter? Or do you think that these extra gains can reduce this gap from the third to the fourth quarter?

A - Lebanon Miranda Barroso

Guilherme, you've been using this word, "aggressive". You see, we are going to pursuit commercial and promotional efficiency. Actually this is a constant pursuit, there is no change in our strategy not we always well have to adapt to seasonality, any sale season.

When the market has more disposable income, which happens in the fourth quarter, we implement our commercial strategy accordingly. It's not being aggressive, it's been very effective rather to increase sales. Last year, when you talk about the margin increase, this happened, because actually in terms of reduction of operating and administrative costs, there were initiatives that we have been deploying and they started bearing fruit in the fourth quarter of 2013. So there is a ramp up of factor of these initiatives.

Now we continue to have initiatives to derive operating and administrative gains under way. A little bit less than last year.

Again, I don't want to give any guidance of margins split, the margins ranges that we are working with are quite healthy for us.

And efficiency gains will be translated into higher sales volumes at a fair price to our customers. A fair price is one where the customer feels that they are buying the best possible product that fits their pocket. And we'll help them with consumer loans, with better delivery condition, to deliver the product very quickly. And to convert their aspirations into purchases.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay, thank you. That's great. Thank you, Lebanon.

Operator

We are now closing the Q&A session. I would like to turn the conference back to the company management for their final remarks.

A - Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

We would like to thank all of you. Don't hesitate to contact the Investor Relations team, if you need any further clarification. We are always here to answer your questions. Thank you very much and enjoy the day.

A - Lebanon Miranda Barroso

This is Lebanon. Thank you very much and I hope to see you in our next conference call.

Operator

This conference call on the Via Varejo's results is closed. The Investor Relations team is available to answer any other questions you might have. Thank you all for participating in this call and have a good day.