

Q1 2017 Earnings Call

Company Participants

- Belmiro de Figueiredo Gomes, Officer of Wholesale Business and Member of the Executive Board
- Christophe Jose Hidalgo, CFO, Corporate Services Officer and Member of the Executive Board
- Daniela Sabbag Papa, IR Officer and Member of the Executive Board
- Luis Emilio Moreno Sanchez, VP of Multivarejo Business and Member of the Executive Board
- Ronaldo labrudi dos Santos Pereira, CEO and Director
- Unidentified Speaker, Unknown

Other Participants

- Guilherme Assis, Analyst
- Gustavo Piras Oliveira, Executive Director, Head of LatAm Research. And Latin America Consumer Analyst
- Irma Sgarz, Equity Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- JoÃ£o Mamede, Head of Retail and Consumer Goods and Research Analyst
- Marcel Moraes, Senior Analyst of the Brazilian Retail and Household Personal Care sectors
- Maria Paula Cantusio, Banco de Investimento S.A., Research Division
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Thiago Capucci Macruz, Research Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to GPA conference call to discuss the results for the company's First Quarter of 2017. This event is also being broadcasted via webcast, which can be accessed at www.gpari.com.br and on the Engage-X Platform with the respective presentation. This slide selection will be managed by you. There will be a replay facility of this call. Be informed that the company's press release is also available at its IR website. This event is being recorded.

(Operator Instructions)

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Before proceeding, we would like to clarify that forward-looking statements made during this conference call regarding GPA's business perspective, projections and operating and financial goals are based on the beliefs and assumptions of GPA's management and as well on information currently available.

Future considerations do not confirm performance. There are risks, uncertainties and assumptions because they refer to future events and therefore depend on circumstances that may or may not take place. Investors should bear in mind that general economic conditions, industry conditions and other operating factors could also affect the future results of GPA and may lead to results that could differ materially from those expressed forward-looking statements.

Now I'd like to turn the floor over to Mrs. Daniela Sabbag, Investor Relations Officer for the company.

Daniela Sabbag Papa {BIO 22210225 <GO>}

Good morning, everyone. Thank you for your participation for our conference call of the First Quarter of GPA. In 2017, we have (proved now) that we are improving the company.

Christophe Hidalgo, CFO; Belmiro Gomes, CEO for AssaÃ; Luis Moreno, CEO for Multivarejo as well, other executives, Marcos Samaha, Marcelo, (inaudible) (Salvador) among others.

I'd like to turn the floor to Ronaldo for his initial remarks.

Ronaldo labrudi dos Santos Pereira {BIO 20052606 <GO>}

Good morning, thank you. Thank you, everyone for once again, taking part in our conference which is the first for 2017. I will be very brief. And Christophe will weigh in in a little. We'll discuss results with more detail and also related to what you've already received. And we see results with a trend that really shows the result from all the hard work we've been having. So I will highlight 3 aspect, the dynamics of Multivarejo sale and margins, a strategic point which is the expansion plan of conversion and also of the organic growth of AssaÃ stores and very briefly also about the sales process for Via Varejo.

So we're going to start by Multivarejo and I must highlight first that we are happy to confirm what we mentioned in our past conference that is that the sales growth dynamics, commercial dynamics for Multivarejo, at that occasion we mentioned that it should not really have additional pressure. And we will see that through Moreno's presentation. Another important point that we also emphasized the last time that even facing a complex scenario, where we still do not see a rebound of the rates in terms of unemployment in Brazil.

And while we also see a cautious consumption behavior, although the whole background is at that level, we can already see some type of recovery and we can see some metrics if

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we consider the performance of Hiper and the market share plan from Multivarejo.

And one last aspect but not less important for the Multivarejo's dynamic, is that we have seen growth and such growth comes together with the positive progress of profitability if we see the EBITDA margin which was something also that we did mention in our last meeting. So for Multivarejo we see the margin being maintained which was a concern. We also see a market share gain. And we can see an improvement in profitability which are the basic indicators that we take into the consideration.

Besides that, there are many other points that are being implemented and Moreno will be talking about that. And parallel to that. And that's where I get into my second point here to refer, which is AssaÃ where we have seen a very great progress. AssaÃ's logic or rationale and his whole team has to do with profitability and we will be able to see that we have been able to reach that and Moreno will be able to explain a bit more about that in his presentation.

Well we have a very positive growth in terms of margin for AssaÃ as well as also a positive progress in terms of the flow at the stores that were recently opened and the ones that have already reached a certain level of maturity. We worked greatly in this First Quarter in defining and we had great engagements of the Multivarejo team of AssaÃ, Belmiro in defining the stores to actually have the conversions. I know we already communicated that to the markets where we want to reach 15 to 20 stores conversions and we are already working on 5. We started in January. So we have 5 stores that are already in a process of conversion and we really expect in this way that we call it in-house, where we will have 1 -- 2, actually, complete the conversion at the end of May and the other ones will be further in June, July. And it's a process that had been very positive with a huge commitment of our team, of AssaÃ and also of the Multivarejo team.

So I would like here in a very transparent way to really thank the engagement, commitment and the very objective manner that we were able to reach this definition of the stores that are in an ongoing conversion process.

In parallel to that, Belmiro will be referring to that. But we also have 2 stores with organic expansion. He is telling me that it's already 4 stores. So he just told me that so, we see a forecast. We always go through a review of the plan throughout the year. So we can really have something greater than what we had expected. But one point that is important to mention is that besides this very important investment of organic stores and conversions, we still have the focus on opening stores or expanding stores for PÃo de AÃcar, Minuto and Aliados. So you'll see on the presentation that, that has been progressing as we had planned initially. And to really be brief and to quote as I did the promise in the beginning, the third and last point is the sale of Via Varejo.

You know as we have already reported in a very transparent manner that we reiterate our strategic vision to focus on the food segment and the divestment of Via Varejo continues in progress in a very natural manner. We want to have this actually progress. But we do not want to rush it and we want to do it in a very competitive manner and the most

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competitive possible. And that's what I have been mentioning. That's what we're working on.

So I know that it's no big surprise going on, everybody's well aware of it that the economic -- the macroeconomic scenario is more favorable now. And when we see the micro scenario, in other words, what is going on in the integration of the online and the brick and mortar stores is always -- is also a positive scenario and this makes us have a position that we can really go smoothly with the process of divestment of the company. I am mentioning these 3 elements that I believe are the ones that have really demanded more from our team and that you will definitely be able to see through Belmiro's presentation, Christophe's presentation, Moreno's presentation that the whole strategy. And all the action plans and the tactics that -- which we have previously shared with you, are still on progress and we always have prioritized the focus on our clients improving in service and also offering experience -- better experience at the stores for our customers. So you will be able to see more about that in the owners of the business units and Christophe. So I'd like to stop right here.

So now I'd like to pass the floor to Christophe so you can really give us the financial figures. Thank you.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Ronaldo. Good morning, everyone, before starting with Slide 1, I would like to remind you all that since Q4 of 2016 the results really mirror the activity to continuing activity, especially in the food business, which includes Multivarejo, AssaÃ, malls, gas stations, drug stores and also the participation of the few discounts.

And we should go on Slide one and I'm not going to focus on sales. That was already announced. But we just have to say that we reached 9.5% in growth with the big reduction of the inflation in the period and this translates a great development of AssaÃ both for the existing stores and new opening and also with the conversions, this growth also confirms the trend of the growth of Extra banner and at Extra Hiper, which keeps gaining market share as Ronaldo mentioned from April, 2016.

When we see the gross margin, we see a growth of 20 bps to 22.4% of sales. It's worth noting that Multivarejo is at 27.3%. I'd like to say that this level of margin reflects the competitive commercial dynamics of the Extra banner and is in line with the behavior observed in the last quarter. We can also consider that this level of margin is representative of the expectations for the next period.

And for AssaÃ, the margin has reached 14.4% and the expansion of 80 bps compared to the previous year. And there are reasons for that, which is the maturation of the store and greater participation of individual customers for the mixed customers and they already represent 55% of the flow of customers.

Finally, I would like to emphasize that for the food margin, for the First Quarter the margin does not have significant nonrecurring effect. And continues to benefit from significant

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reduction in breakeven levels. I'd also like to clarify, when we come to margin, that after the recent decision of the Federal Supreme Court regarding fiscal teams on ICMS. First we are analyzing in-house the whole situation, the impact of which we are really clear about will refer to 25 bps to 30 bps in margin -- in gross margin.

I'd also like to highlight that the effects of the path from this Supreme Court decision have no impact on the ITR or on GPA 2017. The only point that this decision of the Supreme Court has left us is the reversion of a provision that has no impact on the margins. But on the other expenses and on the financial research. We'll get into the detail through the presentation here we're referring to that.

With regarding to selling, general and administrative expenses, I'd like to highlight the significant nominal reduction observed in Multivarejo of 1.3% compared to the previous year as a result of all efficiency and productivity projects that were implemented during the last 12 months. I would also like to highlight that as of the second half of 2016, we have shown a growth well below inflation. This trend is one that we want to keep throughout 2017. In AssaÃ, expenses diluted by 10 bps. That has fostered the format and with all expenses related to expansion, store conversions and greater participation of individual customers.

When we see the adjusted EBITDA, that growth has been up 22% in the quarter, reaching BRL 506 million, which represents an increase of the margin of 60 bps. For Multivarejo the nominal growth of EBITDA has been over 9%, even with the impact of the calendar that's relevant for the quarter. And for AssaÃ, we have 80 bps increase, which has a lot to do, as I have already mentioned, with the maturation of the stores opened in the last year. At this maturation has reached a greater level compared to the previous openings of stores in the past years.

So thinking about the other quarters, we have also a positive aspect, when we think about breaking down other expenses line. So we have here a positive result, because of the decision of the Federal Supreme Court that allowed us to reverse the provision. We had in relationship fiscal themes on ICMS of near to BRL (270) million impact and the second component to this line is that the gain on sales of nonoperating fixed assets net when we think about the assets of the stores that were converted to AssaÃ that brought an impact of BRL 10 million.

And the impact of restructuring, that also was brought to the quarter of BRL 15 million, which was much smaller than the impact that we had seen in 2016. And the last effect provisions of marginal effects on LIBOR and tax contingencies for a total that is less than BRL 30 million.

And I take the opportunity since we're talking about the other expenses to give you a bit more detail on contingencies. We should highlight that we still see a reduction in the company's contingencies and specifically related to federal tax contingencies. In the last 12 months, the total balance of contingencies dropped by a bit over BRL 1.8 billion. And that means BRL 800 million after the monetary restatements.

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When we check the evolution compared to the last quarter of the past year, the reduction reached to BRL 250 million and BRL 80 million shows the impact of monetary restatements. So we have been seeing a positive trend as we did have for 2016. I'd like to emphasize the fact that the remaining balance of contingencies after this reduction continues to be monitored on a recurring basis by management, external auditors, the audit committee as well as by our advisors. And the level of provision with which we have now have set us in comfortable ground as the representatives of the risk to which the company is exposed.

Turning to Slide 3. We can see that in Q1 of 2017, the financial results improved by 10 bps and reached 1.7% of sales. The (solid) curve for the next few months shows an improvement in the operating points related to the business and we are talking about a range of 1.6%, 1.7% of sales throughout 2017.

I should now talk about the single impact that's nonrecurring. And that we have really recovered the provision as I already mentioned about fiscal teams on ICMS that has a positive impact on the quarter with the financial results of approximately BRL 30 million. That gives an impact on the financial results since the First Quarter of 2016, we've had the change of the effects of the line, (41, 31) at the same level of impact. Related to leverage, we have remained at a level that's very close to that recorded and for Q1 2015 that is minus 1.5 and the company maintained a solid financial position with cash position of BRL 1.7 billion and that this cash shows unanticipated receivables of BRL 405 million (sic) (404 million), totaling an amount of BRL 2.1 billion of available resources.

And I should also highlight although that, that was something that went on specifically in the beginning of April, where the company was successfully issuing a second PRA, that was for April, with a demand of 85% above the initial offer. We managed to raise about BRL 1 billion to really work on the debt and we were able to have that at a rate of 96% of the CPI with maturity of three years. This positive operation has allowed us to extend the maturity of the growth to approximately two years or a bit over two years, which makes us at a very comfortable ground.

When we see the net income, there was a growth of 96% for the quarter and improvement of 40 bps in margin. In Multivarejo this growth was over 72% and more than 100% in AssaÃ with a growth of 6 bps on the margin.

Before concluding and giving the floor to Luis, I must mentioned the very good performance of Via Varejo, both the online channel and the off-line channel brick-and-mortar stores. I would also like to remind you that the synergy projects carried out jointly for a few months with Ãxito continues to bring important benefits that exceed our expectations. And for information purposes, it has represented more than USD 8 million in the quarter -- in the First Quarter. And that is for the full LATAM perimeter. I would like now to pass the floor to Luis so he can get into the details of Multivarejo. Thank you.

Luis Emilio Moreno Sanchez {BIO 1902996 <GO>}

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Good morning, everyone. During the First Quarter of 2017 Multivarejo registered, as was just said, that is up to BRL 345 million, which totaled 5.3% of sales. Now this result outperforms by 60 bps from the First Quarter last year and 20 bps the Third Quarter of 2016. Now it's very important to observe the significant negative impact of the calendar effect during this quarter, mainly due to the lower number of days in February this year 28 compared to 29 last year, in addition to Easter. And this year it was celebrated in April and last year it was celebrated in March. It is very important to mention an increase of 400 bps in the average unemployment rate during this quarter vis-à-vis the First Quarter of last year, 13% versus 9%.

Although there was a negative impact of the calendar and the increase of unemployment rate, vis-à-vis last year, we had an improvement in the EBITDA margin through the increase of trade margin added to the cost control.

Now in terms of margin, we registered an improvement of gross margin of 120 bps, vis-à-vis the First Quarter of last year, reflecting basically 3 factors: A reduction of the breakeven -- breakout of 30 bps. This shows that the improvements of store processes are due to the gradual reduction of inventory levels. The second level in the improvement of margins was the optimization of promotional investments with more accurate tools which allowed us to optimize each item individually. Now the third factor is related to the week of Easter, as I mentioned, this year was in April when we compared to March last year.

Now in terms of cost control, our nominal cost was 1.3% lower than the First Quarter of last year, although all cost inflation was around 9%, mainly due to cost with health insurance and increase in salaries. This cost performance is together with a number of improvements in stores and supply. Although we have 7,000 less employees we were able to improve our service.

Now in terms of sales, we registered a growth of same-store sales of 2% excluding the calendar effect. Now according to Nielsen data, Multivarejo registered a market share gain in January and February with Nielsen data for March are still not available. Now throughout the year Multivarejo registered an increase of market share considering total amount of stores and same store sales counted.

It is important to mention that the result of total store will be gradually impacted by the conversion of 15, 20 hypermarkets to Assaí. During the First Quarter, 5 hypermarkets have been converted to Assaí and added to the 2 hypermarkets converted during the last year and they have been already successfully operating under the Assaí flag. Now in the case of Extra Hiper it is important to observe that during the first two months of 2016, the flag registered a share gain, not only in the hypermarket channel. But also in the total of retail. This includes proximity and supermarket channels regarding the gains in Hiper channel. With this result we already have 12 consecutive months of share gain of market, which reflects the progressive adoption of the consumer of our new commercial policies.

Now part of the performance of Hiper hypermarkets were driven by the performance of the nonfood category in the past six months. Now in reality, we registered 6 consecutive

months of growth in non-food and we are undergoing a significant transformation of a non-food concept, mainly through the textile new concept of electronic and goods for the house.

Now regarding perishable goods, in Hiper Extra we're revitalizing and activating the category through festivals in the stores as bakeries and seasonal foods encouraging the creativity and engagement of the store.

Now during the First Quarter, Extra was highlighted as the most loved brand in Brazil in the category, hypermarkets and supermarkets by the magazine, (Modern Consumer). Now this award was based on a sample of 1,500 consumers distributed through Brazilian segments by social classes, gender and region.

Now regarding Extra Super, after a number of focus groups carried out with our customers, now we're deploying the different opportunities of improvements that were identified. In some cases these opportunities are related to the fine adjustment of the assortments to fully fulfill the needs of our customers. And also the development that the meat services that are essential for our customers. For instance, we reactivated the service of ground meat right on time. This is something that customers want. We're also bringing back to our stores the services of fresh fish Fridays and Saturdays.

Now regarding Pão de Açúcar, March 15, we inaugurated the release of the superstore in (inaudible) neighborhood. This is a store with 1,500 square meter of sales area. The performance of the store in reality is the best amongst all the openings Pão de Açúcar in the past two years. Now this that store represents one of the latest innovations of Pão de Açúcar. Plan has compete with hypermarket and also markets very close to them.

Regarding the proximity format, we continue developing and growing the (inaudible) partner business. We now have 102 locations and now we've jumped to 150 locations.

Let's talk about inventory reduction as I mentioned. Part of the improvement of the breakout is regarding our inventory. We maintained the reduction in inventory brands between BRL 500 million and BRL 700 million this year. Now in operating terms, we have launched 2 transformational programs, an improvement of the multi-program focused on our customer and the reduction of time of wait. Now in the past times we have trained almost 12,000 employees to work in the cache of cashiers. These 12,000 employees belong to other areas of the stores. But they are still to work on the register in peak times.

We have practically doubled the amount of employments that are at the cash registers, the second positive deployment as of May of the new incentive and productivity program in stores. The program impacts, 55,000 employees that will have a financial incentive that is variable, that is connected to their productivity. The pilot projects have been very successful and promising.

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Now shifting our theme, we would like to talk about the transformation of our relationship with our suppliers. This transformation is based on 3 main pillars. Now the first one would be the transition to more stable and structural negotiations going from day-to-day negotiations -- short-term negotiations to a value generation that is much more constructive.

The second pillar is regarding the cooperation and improved efficiency through the deployment of a collaborative platform that shares information regarding inventory and good flow. The third pillar is regarding when you share the information with our suppliers based on a loyal customer base, which corresponds today to over 11 million customers allowing the suppliers to interact with all of this data to reach with accuracy the promotional activation.

In summary, we're eliminating the common attrition and migrating toward logistic cooperation and trying to be more accurate in promotional activation. Now this is also related to something that we call digital transformation of the business.

On May 25, we will announce the launching of a very important digital initiative in order to fully leverage the potential of our loyalty program. And all of you are invited to participate in this event that will be carried out on this date in our auditorium.

Now as a conclusion, we have improved the results of our First Quarter in terms of EBITDA margin and simultaneously, we have registered share gains, maintaining the focus on the main transformation strategy to continue delivering sustainable results in the future. Thank you very much. Now I'd give the floor back to Belmiro.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Well thank you very much Luis. Ronaldo and Luis have mentioned AssaÃ registered in 2017 a strong sales growth. They grew from BRL 3.2 billion to BRL 4.4 billion representing an increase of BRL 1 billion during the First Quarter of 2017 vis-Ã-vis the First Quarter of 2016. Although, with the impact of the First Quarter of (that), that will grow 36.2. This is the result of 2 factors, number one, as Christophe already mentioned, the result of the expansion of 2016, the new club stores that we opened in 2016 has increased our sales volume and increased our margin vis-Ã-vis 2016 and also same-store sales of 12.9%.

Now same-store sales growth of 12.9%, we operate during the First Quarter with an inflation rate that is very different from last year. The (billing) has dropped from 3.1 to 5.2. 12.9% when you include the same-store sales. Growth of 7.7% vis-Ã-vis 3.8% the First Quarter last year. So we have doubled same-store sales when we compare it to last year.

Now same-store sales is also driven by a slow positive flow movement both in mature stores and also new stores. Now this also allows us to work during the First Quarter and we have had an increase of margin as Christophe said, of 0.8. The gross margin grows from 13.6 in 2016 to 14.4 in 2017. This margin improvement is an operating improvement. Therefore, it's a result mainly of the performance of 2016 vis-Ã-vis 2016 -- 2015. We have

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had more anticipated curves than what we expected and this allowed us to work during the First Quarter with a different margin volume than those stores that were open in 2015.

Now the margin improvement comes because of greater operating leverage gains in AssaÃ, improvement in logistics and volume that has also improved a lot this quarter. New commercial and practical dynamics with suppliers and also the maturity of the new stores of 2015 that also present their maturity in the First Quarter of 2016. As Christophe already mentioned the expenses, although there is pressure, we have an aggressive plan of expansion in 2017. Our expenses are below the sales growth and expenses have dropped and reached 10.4 in net sales and 9.5 in gross sales. It is the lowest expense percentage of operating cost of AssaÃ. And this is during the First Quarter and this is the First Quarter where we have to carry expenses due to the expansion.

Now the maintenance of the level of expense of the low-cost allowed us the improvement in margin being transported to EBITDA, giving us an evolution of the EBITDA that goes from 3.2% in the period to 4%, delivering an EBITDA way above than what we had in other quarters. Now the financial expenses with the (inaudible) profit AssaÃ itself finances so all the volume are ongoing so as are generated using our cash generation.

We would like to highlight the effort of our team regarding the inventory. They are being very disciplined in inventory, although we had a method of our financial cost. But due to the size of AssaÃ, this was 0.2percentage point and here we have dropping expense, financial expenses dropping. Therefore, the net profit goes from BRL 36 million to BRL 78 million to going to 1.1 to 1.7 contributing strongly with the GPA results.

Now to -- in a nutshell, the scenario for the next quarter we are still working with a continuous drop of commodity prices for the upcoming months, mainly during the second and Third Quarter, we will fulfill -- we will have lower prices of food but we see the effect of the First Quarter, we have grown twofold in same stores. Flow of customers continues positive, guaranteeing the growth of same-store sales. And this is greater than last year. AssaÃ team is highly focused on the sustainability and the maintenance of our business and you see the result of this so now we have an expansion plan that is very aggressive for 2017.

Now amongst converted and organic stores, this is the most aggressive plan that we have ever executed in AssaÃ. So as a target we want to open at least 15 conversion of stores that operate in the Extra flag go toward AssaÃ and this will maybe move up to 20 and we expect to build 8 organic stores. Now this moment of conversion of construction of new stores is self-financed. This doesn't exert additional pressure on the cash flow of the group.

They have been generated 100% by AssaÃ that impacts. Currently, we have 4 organic stores under construction, 5 Hiper stores in conversion and 6 units that will be closing May that will start being converted as of June. So all of these actions allow us to have a strong cycle of opening new stores and we will have a strong fee during the third and Fourth Quarter. This is a target to open or to transform 22 new kinds of sales. The AssaÃ team is strongly focused in a number of areas to execute a challenge of these sites guaranteeing

our growth level and to strengthen GPAs both in sales and market gains, not only for 2017. But for the upcoming years. So this is what I have to say about AssaÃ and then I will give the floor back to Daniela Sabbag.

Daniela Sabbag Papa {BIO 22210225 <GO>}

So now we will initiate our Q&A session.

Questions And Answers

Operator

Now we will initiate our Q&A session. (Operator Instructions) Our first question from JoÃo Mamede, Santander.

Q - JoÃo Mamede

Three things I would like to know. How Easter helped you in the profitability of the quarter. You have a lower margin effect because of a product portfolio. And so in their foundation, it was a lower margin because the Easter was first -- it was the Second Quarter. But on the other side we also have 1,2,3 Campaign. So we also -- perhaps you were helped because of this. So you have effect on both. So I would like to know about this dynamic, if you could say something about this. The second would be expenses. Expense control this year is very strong, with the initiative that was deployed during 2016 (inaudible) especially in the Multivarejo, I would like to know how much of this can we expect for the future? And if you will, the (little more) costs that come from these effects. So this is the second part, regarding their expenses. Then the third point here would be a question for -- that will be to AssaÃ percentile has been a highlight, although Multi had a very good performance. AssaÃ accelerated the EBITDA growth in terms of margin. This is something that we haven't seen in years and much stronger than last years. So I have difficulty here in seeing towards where with this margin is going? Or where will it become stabilized? So Luis, if you could share with us on what you see in terms of profitability in the short or long or medium term it would be very good in order to understand what is going to happen with AssaÃ in the upcoming years.

A - Luis Emilio Moreno Sanchez

 {BIO 1902996 <GO>}

Thank you for the question. And related to the margin and the impacts of Easter, we are reporting an improvement of margin of 120 bps and the breakdown of the 120 bps would be the following. 30 bps of gains of breakout for improvement of process. And we estimate an impact of Easter at a level that would be from 20 bps to 30 bps of favorable impact for the -- compared to the basis of the previous year and also, there was a favorable impact when it comes to the conversions of AssaÃ for the Third Quarters to now of 30 bps. And we are talking about an improvement in the forecast of the promotional activations. In terms of the expenses for the future, we had an important improvement 1.3 drop of nominal expenses compared to the previous year and for the future, we are activating the programs of (polyvalency) or a fully powered program that will start actually May 1. And we will have new tools to start their continual improvement of dropping expenses. And we will still keep trying other processes in terms of sales level,

where we have the last information of this quarter of a percentage of employment that can really bring a greater impact in terms of top line and in terms of expenses. But we believe, we have enough plans to really have an improvement in our process and encouraging our employees in terms of -- this will improve much overall processes.

A - Unidentified Speaker

Just one more follow-up before Belmiro answers. Well the margins definitely, we've had a growth rate in the last two years. Maybe different from 2015 and the other years. We actually went to new cities, where the new stores have really an impact. So when you see AssaÃ, when you see all the stores half our sales are sales from stores that were opened in the last year. So we are talking about maturity here. What we realize in First Quarter of this year is an impact that, that is a recurring one and now that we have a greater number of stores. We see an expansion that is not that representative in terms of a margin, in terms of the choice of stores. This year, we're focused on conversion of stores and regions where we are able to work with a known brand, best brand awareness in terms of also profit. So we believe that we'll have a greater margin from what we saw in the last two years. And that is because of the maturity level increase and obviously in -- we have to take into considerations other margin. But when you see all the stores, what we believe they're already at a maturity level, we have another level of EBITDA that can have an impact, that can be a bit greater than third, Fourth Quarter and also of the First Quarter 2017, because if any on the commercial policy, we have first 4 can have a reduction. But in any case expectation for this year different from the previous years where we just started getting into a new states. Now we're already in project, where we're well known, where we have a whole logistics operations process. So we will not have an impact in margin. So we believe, we'll have in margins much as we just see for this quarter. But for most likely something greater than what we saw in the previous years for the AssaÃ banner.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Okay. Thank you, JoÃo Mamede. Wish I could just have a follow-up on that. Based on that we can actually foresee maybe a margin over 5%. With that said DC is something that we can actually focus on for a 3; to 4-year period definitely. I mean, the majority actually of our stores now already was around that number. So actually the impact of the expansion and the 4 that we opened represented 16% of sales for the First Quarter. 16% when we think about the quality that has been agreed on. We have actually a percentage that is very possible to reach.

Q - JoÃo Mamede

And one very quick follow-up on what Luis said. But the breakout you showed us (inaudible) you have 20 or 30 basis points and that can to be an impact of Easter. But last is 100% recurring. That mean we'll see that for the second, third and Fourth Quarter. Is that pretty much what we can expect?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Yes. That's pretty much it.

Operator

Next question. Richard Cathcart, Bradesco BBI.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

I just want to go back to João's question and understand a bit more about the strategy. The 1,2,3 for the First Quarter. I understood that it started in March as a pilot last year. So I thought there would still be a negative impact because of promotions in January and February. Was that the case or not exactly? And the second question is you talked about an increase of customer satisfaction in the release. So is there any more to say in terms of that? As we talk about NPS index, I mean can you explain to us a bit more about each banner as well?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thanks you, for your question. Well in terms of the impact of 1,2,3. 1,2,3 started April last year and just 12 weeks before we had the actual pilots in some stores with a promotional dynamics that was very similar and maybe to understand better the margin of the First Quarter. The best comparison would be the margin of the Third Quarter of last year, where we had a very active process with 1,2,3. And in terms of margin, we still have an improvement of 50 bps and compared to the previous year, we are talking about the 26.7%. So we now have a profitability of 27.3%. So it's true that we're talking about an Easter impact here of the 50 bps. So we believe that a full impact of 1,2,3 will show an improvement in margin and in results. In terms of the satisfaction index -- customer satisfaction index, we started in June of the previous year, where we started a research study where we had for each quarter at each store. And it actually includes 100 customers per stores and research 25 different attributes of satisfaction level. And they refer to product price, service, waiting in line at the cashier with the service, all factors that customers actually would choose stores based on that. So we actually had 3 ways of this research study. And we have a very positive progress in most of the attributes. There was one attribute that we were not significantly improving, which was the waiting lines at the cashier. And we are now launching with (polyvalency) program or full power program to really make the cashiers have a different service during peak hours. And we are thinking about also improving this attribute, which is one of the most relevant to customers. The progressive improvement was nearly for all banners for Extra Pão de Açúcar for Hiper supermarket and also for Proximity. It's important also to mention that the result of the customer satisfaction index is also related to the variable compensation of each manager of each of our stores.

Operator

The next question. Thiago Macruz, Itaó BBA.

Q - Thiago Capucci Macruz {BIO 16404924 <GO>}

My question is related to Pão, where you mentioned that Extra actually -- has actually shown a progress in all the quarters. But Pão had some difficulty in growth. What can be done with the Pão banner to actually gain market share again, get back to a growing level for 2017 and all concerns of sale, that's my question.

FINAL

Bloomberg Transcript

A - Unidentified Speaker

Well Pão de Açúcar also operates in the same context of difficulty as we see all retailers in Brazil stating and there's more pressure also. I mean, we are talking about for Pão now ensuring the level of service that is expected. That's why the program (polyvalency) and also the programs we have are more relevant for this one. So the first attribute is we want to ensure the service and second, we want to really have an individualized relationship with customers at the store and that's part of what we will be announcing for the next, May 25 with the digital transformation of our loyalty program, where the Cliente Mais or client plus will have significant where we believe they are more than 65% of loyalty sales will be. Recently, we are also working on different levels of differentiation, where the store in (inaudible) is an example of the new concept that is innovative for Pão de Açúcar where we, for instance, have the new concept that you have actually, the customers being able to buy book with recycled books and also with an improvement of 20% in price. So we are working on the type of customer service in relationship with our customers, digital transformation of our loyalty program. And we carry on working in really bringing the value proposition to our customers.

Operator

Next question, Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

And I would like to get a bit into the question about conversion. You seem to be very excited about the results that you show in the release that you have had an increase in sales. And most likely, you have the stores of Extra that probably had margins below average. And you probably have new stores that have margins closer to Assaí. So the impact sure is very positive. So how long will this take? I mean, you already have 5 stores now. And I think Belmiro said there will be another 5 for May. So how long does it take and what is the amount spent for the conversion? And if you actually -- can actually reach these 24?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Well actually the 2 pallets show very positive impact in terms of sales volume and also, we actually have recorded an increase of customer flow. And we see that the result was very positive. The choice of stores is not only relative to the Extra banner. But also related to a very detail analysis of the marketplace and what model can adhere better, be it medium, short, long term, where we had that original store that we really believe that the wholesale format is better for that region because of the population, the target for profile. And when it comes to a (inaudible) I mean, it's totally different from a new one conversion. It's a per store case. So depending in the union, you might have to change some type of electricity fixture, rounds, flooring so in terms of full conversion from closing to reopening with the Assaí banner is really depends on the store. So it's hard to say per cost, how much it is. So some stores you have to change the roof -- the flooring, reinforce the flooring so you have a 50% of a new stores. And there are stores which are newer and with a building, you have that 20% of the cost of a new one. So if we think about the 2 new Pãos where there was a bigger investment, the average cost for the conversion will be much easier than to the 2 Pãos from last year. So we will have a performance that will

actually show us a result better if we compare to a new store where we start a new loss and you start something totally new, as we have for AssaÃ, Multivarejo. And something that we are very committed to really have the plan as it was designed to get a positive results in the process.

A - Ronaldo labrudi dos Santos Pereira {BIO 20052606 <GO>}

Well something that's important say, Belmiro mentioned it clearly, there is a level of activity that is very big for Belmiro and Moreno's team. And it is clear that there's a final decision of the organization where we check the return on investments and at this point, we are. And as I mentioned in my opening statements that the analysis that we actually did for the conversion of the 15 stores at the city of Pílares and the city of SÃo Paulo is much better when it comes to all the indicators that we had for our business plans. So that is what will drive us and have the whole team of Multivarejo and of AssaÃ driven to really have the process (results). So we're talking about 15. But we want to have the highest number as much as we can to be able to perform throughout 2017, other than the organic ones that Belmiro mentioned. So we are very confident about that, because the volume is greater than what is expected. The average ticket is better than what was expected. The flow is better than expected. And when we actually compare with AssaÃ stores in SÃo Paulo and in Rio, the average of AssaÃ stores compared to the ones that were converted, the converted ones still have a better performance. So that's why the organization as a whole is very excited with the whole process of conversion and with a very positive outlook when it comes to results.

Q - Guilherme Assis {BIO 16143141 <GO>}

So if I could just actually ask one more question. In relation to actually, the Minuto and the supermarket, it seems that there was some acceleration of the process in terms of conversion with the Extra campaign. But I would like to understand more about the change of focus when it comes to the model of minimarket of neighborhood stores that we must see this actually being back to growing when we think about short and mid-term as a strategy.

A - Unidentified Speaker

We are designing our priority for the (Tier). #1 would be to convert our CapEx. This would be our first priority. And it would be the AssaÃ conversions. We believe that the context that is more favorable to speed up these conversions. Now in Proximity, we're strongly growing with business model. Partners, CompreBem buy well. We reached 120 locations at the end of 2015 -- 2016, 150 at the end of the First Quarter and when you asked about PÃo de AÃsÃcar we are going to prioritize this year, the refurbishment of the (nonsignificant) stores of PÃo de AÃsÃcar. And we want to continue modernizing them. And we want to have the best standards at PÃo de AÃsÃcar. So we do believe that the Minuto model. Nevertheless, we have to prioritize our investments in the short term. So these are the 3 points that we have for this year.

Operator

The next question, Marcel Moraes, Deutsche Bank.

Q - Marcel Moraes {BIO 20057766 <GO>}

I have 2 questions. The number one is regarding the restructuring of your hypermarkets. I believe that the new commercial policy brought a new level of competitiveness. But when we think about the future, do you believe that greater penetration of your label is going to make the remaining hypermarket more profitable? Will it be more sustainable throughout the year? This is my first question.

A - Unidentified Speaker

Okay. As a matter of fact, that we do believe strongly that private label has a strong potential to gain more competitiveness in all of retail formats. Now the casino will all have a very good experience in this sense when we talk about a private label. And we have a working team. And we will deep dive in the potential as a development of private label, because the abilities that there is great potential to improve the efficiency of the food industry in Brazil. And we want this to turn into a cost structure, greater advantage to our customers and to us as well. Therefore, this is one of the priority that we are working on this year.

So if you believe that, how fast will this project give us results? Oh in three years have you believed that the results will be same in 2018. We believe that is so transformational, is so connected to a different relationship with the industry -- with the current industry. So we believe that it's a middle; and long-term program. We can feel the impact this year. But most of this impact will be felt right next year.

Q - Marcel Moraes {BIO 20057766 <GO>}

Okay. My second question would be regarding your inventory. You said that, you expect to drop from BRL 500 million to BRL 700 million. Can you give us more details regarding the different format that you will use and how will this take place? Will you have a more (operation) logistics? Or you will have better assortment to manage your inventory?

A - Unidentified Speaker

Thank you very much for your question. Well we see opportunities in terms of stores and in terms of distribution centers target from BRL 500 million to BRL 700 million in stock has a target of 10 days of inventory reduction. Out of these 10 days, seven days are for stores and three days would be for distribution centers. Now within our distribution center, as of June we are deploying a new collaborative platform together with the industry that will enable the merchandise flow in distribution centers. This means the multiple will be cross-stock. So the merchandise will spend less than 24 hours in the distribution center. So the shifts that we have regarding the relationship with our suppliers is also eliminating any incentive to intensively purchase at the end of the month. That was something that the industry and retailers would do. So we're also redefining the type of relationship with our suppliers to have more efficiency and have -- and do not have inventory fees. So with changes in the distribution center, with our supplier, with our store and it is totally feasible without the impacting our stores.

Q - Marcel Moraes {BIO 20057766 <GO>}

Now who continues to impact those that distribute the products towards the store and will there be a cost -- a change of cost here?

A - Unidentified Speaker

So actually, the products that are distributed via our DC, continue being distributed through our DC but with the cross-stock model and these products are less handled in our DC and also, impact the efficiency of our logistic cost.

Operator

Next question from Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 20154008 <GO>}

I would like to go back to a matter about gross margin, you mentioned at the beginning of the call. What did you do to improve the assertiveness in your promotion? I would like to see the qualitative aspect behind this. And I would like to see what the level of engagement of your suppliers is due to the macro environment that is much more complicated now. So I don't know if you are giving more discount. What is happening here?

A - Ronaldo Iabrudi dos Santos Pereira {BIO 20052606 <GO>}

Thank you very much for your question regarding the accuracy of our promotional activity. All the experience that we have gained from last year, what we would do is we analyze after we activate each promotion. And we see what was the electricity, the incremental purchases of existing, new customers, the promotion. Also, activated the complete basket purchase of the customer. And based on this we see which category represent a better return and where the promotion doesn't create an incremental EBITDA. So this is something that we call the accuracy when it comes to investing and promotions that benefit us and our suppliers, because as a matter of fact, see it is a joint effort and both parts want what's the best results for us. And for our partners, that would be our suppliers.

Operator

Next question. Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I would like to go back to one of your comments that is the impact of the fiscal thing or where I see an impact, is this impact of 20, 30 basis points over the gross margin. So how is this going to affect the gross margin? And second question, if there would be an increase of (open).

A - Unidentified Speaker

Well it depends on the federal Supreme Court. I believe that this will affect our business between 20 and 30 bps. We don't know if this will materialize itself through EBITDA

margin or the market will return with these 20, 30 bps to the price competitiveness. For the time being, we are working. We are maintaining our competitive policy to know if we will have to invest these 20 or 30 bps. But we believe that we already started seeing the effect. But it's still under discussion and will take some weeks to see how we deal with the retroactive because we just had a ruling from the federal Supreme Court. So we have to see what happens before that.

FINAL

Q - Irma Sgarz {BIO 15190838 <GO>}

Now the second question would be the expectation of opening new organic AssaÃ stores. So what is your CapEx guidance for this?

A - Unidentified Speaker

Thank you very much. Irma, well, we maintain not at the same volume of last -- of the past year, because there is a greater conversion. This year, we're about to have 8 to 9 organic stores and 4 under construction right now because of the conversion structure. AssaÃ, we want to have more expansion in -- remember, in Brazil, there are new cities that do not have Extra prior. And we want to install ourselves in these regions. But there has been a drop of organic activity, because we're strongly focused on the conversion of the Hiper stores.

Operator

Next question. Gustavo Oliveira, UBS.

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

Luis, I have a question regarding the turnaround that you will try out in PÃ£o de AÃ§Ã°car. Now when we compare this to hypermarket, there's a great competitive problem because your great initiatives are the results of your promotional campaigns. Now it also depends on inventory management. But PÃ£o de AÃ§Ã°car seems to be a little bit different. You talked about service and customization and loyalty program. I don't know if what is in your value proposals, there's something different. Is this something difficult to do? I would like to better understand the part of PÃ£o de AÃ§Ã°car?

A - Luis Emilio Moreno Sanchez {BIO 1902996 <GO>}

Thank you very much for your question and as a matter of fact, PÃ£o de AÃ§Ã°car is not the center of our general context and specifically at the -- and customers are quite sensitive of -- we -- and it's value, not only price. But we do know that in certain product categories the customer found some alternatives that made customer in Rio, our (inaudible) to buy in different formats. The response to PÃ£o de AÃ§Ã°car we believe that, overall, we don't -- it's not lower competitiveness. I believe, that found us up in the individualized accuracy and price levels and the categories that we want to offer to our customers understanding that PÃ£o de AÃ§Ã°car, 75% of our sales are individualized sales. We perfectly know who our customers are and what categories thereby and kind of this program and what we are going to explain in detail, on our event that will be held on May 25. So basically the customization and individualization and also price segmentation for customer. So this is what.

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

A last question that I have here. Don't you believe that your hypermarket margin is too high? Don't you believe that you could reinvest this on the customer? Or you believe that it's not necessarily because your most direct competitor isn't doing anything?

A - Unidentified Speaker

No. The way we measure was the proper margin and competitive level is connected to a market share in this area. So until the moment and this is what happened during this quarter. Although we increased our margin levels, we continued gaining market share. These are 2 very sensitive variables and highly connected that we closely monitor in order to reach a healthy breakeven point that completes the components. The most difficult is what we did during this quarter that is to increase margin and to increase market share.

Operator

Next question, Maria Paula Cantusio, Banco de Investimento.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

I apologize, if I'm being repetitive. But I would like to know in your release you mentioned that the individual customers have increased their participation in AssaÃ, although there has been lower pressure or inflation. Is this to the high level of unemployment? And when unemployment is -- if we are getting back to normality then we expect a reduction of individual (customer zone) to the AssaÃ brand.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Okay. Thank you very much, Paula, for your questions. This is Belmiro speaking. Well the improvement of our margin is the change of -- -- due to factors in Brazil, where we have had more individuals going to AssaÃ. This is before crisis. And they are still in the set up during the crisis. So we have 2 million, 3 million families that have migrated to this sector year-by-year. At the end of last year we carried out a survey with the great number of customers and what they say is that economic recovery 98% will remain within the wholesale segment, because of a different surprise. And this is the foundation that we take into account in order to make our decisions. We see the conversion process. It is important to understand that the movement of the consumer is something that comes from the past, because -- and the whole modeling of all the stores. The standard of stores in AssaÃ or in the sector. Well this is a store standard that keep low prices and has operational leniency, therefore a customers of different social classes, they go to the segment today and they buy there. They -- We make an analogy where what happened in the U.S. market during crisis, many customers who went for wholesale supermarkets. After the crisis they continue going to the wholesale markets and the bell curve continued. Now I will (inaudible) we will see about (inaudible) by and large if you have seen although our reversion that there is a trading-down trend. And when we see payment methods, cash payments drop during the quarter, although we see an increase in AssaÃ in terms of total sales. This is something that we haven't seen in the market. We have seen a contrary movement in the market. What we observed was if we analyze Via Varejo, there was an increase of payments in cash and a significant increase. We believe that part of this is due

to the FGTS. That would be the pension fund that were released to and this is there for the working severance pay. So the cash payment have increased and this is one of your questions that by and large, we still have not felt the result and a bit positive result because this is an evolution of projects that were carried out throughout (2016). We believe that this is more of a result of the team's work. And we still do not see a recovery of our stores and we believe unfortunately, that this may take place but only during the second semester.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

I apologize but when you were in -- when you breakout your wholesale then you will have cash. So it's -- they drop from 61% to 51.5% in this entry. If you had -- I don't know if you know why the payments in cash dropped.

A - Ronaldo Iabrudi dos Santos Pereira {BIO 20052606 <GO>}

Well we're going to talk about food. In Via Varejo what we see is a very significant increase in payments in cash. But you are right. Belmiro will give you more details regarding this pattern.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

While Multivarejo, you have to see the significant improvement of nonfoods. Nonfoods are generally paid in installments so this is also related to this. This is why you've seen this drop in payments and cash. Well after what happens last year, there hasn't been a trade up or a trade down. We believe it has been stable in all brands in AssaÃ. Multivarejo, we -- our brands are stable now. If there's an economic recovery. Well we don't know but this is stable right now. Now credit card there are some factors that contributed although Multivarejo is focused on nonfood and electrical appliance. And we saw this in the Northeast. And then the Northeast by nature has -- uses more credit cards and also, improve the -- will increase our end consumers in AssaÃ. How this may be increased essentially (inaudible) a reduction in food stamps, food services that (inaudible). Now the flow of customers will be even more stable. There has been greater participation of ticket and credit cards. But we have given more importance to the Northeast. The Northeast generally uses more credit card than the South and the Southeast of the country.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

I just have one final question. Could you talk about your food sales, your e-commerce and you talked about a solution to internalize the GPA electronic channel?

A - Unidentified Speaker

Well the operation of e-commerce. In the food business, we are operating in a dual manner. On one hand, we have a centralized operations with a distribution center, which is a delivery for the next day -- for the following day so the person places the order and they get their order the following day. We're also activating another delivery service that we call as express delivery. That is specifically at the critical stores. It is a delivery that you have in 4 hours to be delivered and with its mix, also according to the preference of customers, in 24 hours or express. So both have been growing in a way that is very

sustainable. And we have great expectations for a constant improvement in this channel that is also, absorbs greatly the absorption -- excuse me, the behavior of customers.

Operator

We have just closed the Q&A session. I'd like to pass the floor to the company for closing remarks.

A - Ronaldo labrudi dos Santos Pereira {BIO 20052606 <GO>}

Thank you. And I would like to thank everyone for their participation. I believe that we are starting to see results that springs from the foundation of the work done in the company. And we start to reap rewards. I am very confident. And we see here around our table that we have a team that has been with us for some time now, Belmiro, his team and Moreno, his team and Christophe, Salvador, Eduardo, (inaudible). We have in -- where we have not talked about the point that the organization has progressed much when it comes to this specific point. So I'd like to close by thanking our team for their persistence in carrying on with the work as we propose ourselves and committed to it some time ago and I'm very optimistic when it comes to the future. We expect 2017 not to be exceptional. We still believe it will be a tough year. But we really see a positive trend, a bit in terms of what we showed you here for Q1. It is very clear to us that we can see (28), where we'll be able to read much more from what we have been showing this year, where 2017 shows the trend as we reported. We are confident that with the team's determination and everybody's drive around the table here we'll get there. Thank you very much, everyone. And have a great weekend.

Operator

The conference of GPA result is closed. And you have the company available to answer further questions. And thank you, all for your participation. Have a nice day.

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