Q4 2018 Earnings Call

Company Participants

- Belmiro de Figueiredo Gomes, Real Estate Business Director & Member of the Executive Board
- Christophe Jose Hidalgo, CFO, Corporate Services Officer & Member of the Executive Board
- Daniela Sabbag Papa, IR Officer & Member of the Executive Board
- Frederic Garcia, Executive Officer of Proximity
- Laurent Maurice Cadillat, Head of PÃ£o de AÃ§Ã°car
- Marcelo Bazzali, Head of BU PaÃ£o de AÃ§Ã°car Brazil & Food E
- Peter Paul LourenÃ§o Estermann, CEO & Member of the Executive Board
- Unidentified Speaker, Unknown

Other Participants

- Gustavo Piras Oliveira, Head of LatAm Research & Latin America Consumer Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Pedro Bueno, Research Analyst
- Ruben Couto, Research Analyst
- Thiago A. Bortoluci, Research Analyst
- Thiago Capucci Macruz, Research Analyst
- Tobias Stingelin, Director

Presentation

Operator

Good morning. And thank you for waiting. Welcome to the GPA conference call to present the company's earnings results during the Fourth Quarter of 2018. This event is being simultaneously transmitted through the Internet via webcast and can be accessed at www.gpari.com.br where you may find the presentation. The slide selection will be controlled by the participants. The replay of this event will be available soon after its closure.

We would like to inform that the press release on the company's results is also available in the Investor Relations website.

This event is being recorded. (Operator Instructions) Before proceeding, we would like to clarify that statements that may be made during this conference call regarding GPA's business prospects, projections and operational and financial goals are based on the beliefs and the assumptions of the company's management as well as on information currently available.

Further, prospects are not a guarantee of performance, they involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur.

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

Now we would like to give the floor to Ms. Daniela Sabbag, Director of Investor Relations of the company.

Daniela Sabbag Papa

Good morning, to everyone. Thank you very much for participating on our conference call of the Fourth Quarter of 2018. Today, we have the officers of the company and corporate executives of the company Ronaldo Iabrudi, Co-Chairman of the Counsel; Peter Estermann, CEO; Christophe Hidalgo and the Business Executive, Belmiro from AssaÃ; Bazzali, Extra; Laurent, AÃ§Ã°car; Fred Garcia responsible for Proximity.

Now I will give the floor to Peter for his initial comments.

Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Good morning, to everyone. Thank you very much for participating in our conference call for the Fourth Quarter of 2018. I will start with general view of the business performance. So that each one that is responsible for the view can make the detailed comments.

I would like to say that we ended the year of 2018 with excellent results of GPA Food above our guidance that we had announced. Now we presented a sequential evolution and highly consistent regarding our operational performance with gains of margin share of all the segments in our business. We had an excellent optimization plan and our store portfolio with conversion initiatives of renewal and new concepts. Then beside our multichannel business model, multiformat and multiregional business model, we were able to deliver to our customer's products and services that are according to their needs. We registered this year an evolution of 10.7% of our gross income in GPA Food totaling almost BRL 54 billion in 2018.

Our investments of BRL 1.7 billion almost 30% above of what we had last year shows how we trust the execution -- how we trusted on our business strategy. We have had a trajectory of growth strengthening on 2018. Our national presence, especially in (wholetailer) we opened -- we had 144 stores at the end of last year and the high assertivity of the location of our stores resulted in a performance above expectation and a greater level of per square meters in the past five years. Belmiro is going to give you more details.

In 2018 we had the best Multivarejo performance, the greatest growth of revenue. And this is because of better performance in sale and more operational efficiency. We have assertive -- we had assertive commercial dynamics and we are consistent in our digital transformation initiatives. We are positioning our own brands that are very important to have more loyal customers in the more markets where we still foster important adjustments in our store portfolios. We had already mentioned, with conversion initiatives, renovation initiatives and new concepts that strengthened our multichannel multiformat, multiregion business model. We remodeled and converted 36 supermarket units towards -- to Mercado Extra and Compre Bem, they present a very positive sales evolution in terms of ticket volume and we will see more details.

We also retrofitted also 15 PÃ£o de AÃ§Ã°car stores. We are also strengthening our premium brand. Our digital transformation also were very consistent in our work and I highlight 2 initiatives that you are aware of that we are presenting very important evolution that is strategic partnership with Cheftime. We are also selling gastronomic kits and also delivery that puts as ahead of the retail market. James -- platform that will now -- it's a pilot project in ParanÃ¡ both in our PÃ£o de AÃ§Ã°car stores and the Extra stores have presented a very positive performance and we already planning a roll out for the operation in SÃ£o Paulo very -- in brief.

Now following this line, I have to comment the excellent performance that we had with our e-commerce last year. We registered a 68% growth during the year, guaranteeing the maintenance of our leadership in GPA when we talk about food delivery. We also promoted. We remodeled our AssaÃ. We brought in our express service, the Click 'N' Pick, we opened last year. Now we have our first store, our first store that is -- it's a store the Adega store. This is a beverage store. It -- we work with physical and digital store. This is a true and multichannel experience. We ended 2018 with the positive evolution. Our results are consistent and sustainable in all our businesses.

Now this year, we are going to have the greatest volume of investment in the food group totaling almost BRL 1.8 billion. This shows you how trustworthy we are on the macroeconomic scenario and our commitment when it comes to living even more consistent results.

For the year 2019, we will improve all the performance of the group, always pursuing improvement in services for our customers and delivering an impeccable purchase experience. We will continue pursuing opportunities of growth and income, connected to the expansion and the optimization of our performance.

I thank you and I give the floor to Christophe that will make that will talk about the financial results.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you very much, Peter. Good morning, to everyone. We will go directly to Slide #2 where we will see the main financial highlights of GPA foods regarding the Fourth Quarter and regarding the year 2018.

We observed a strong evolution in our income 12.1% in the quarter. This confirms our trend of more sales dynamic that we had throughout the year and also confirms the solidity of our portfolio. And this is according to the reality of the consumer market and we had a top line growth of 2 digit. This means a significant real growth above the inflation and above the sector.

Now regarding the gross margin, the level of 21.8% in the quarter reflects great participation of sales in AssaÃ that presented a stable margin regarding the last year and greater competitiveness in Multivarejo. This level is around 22% and this highly represented tip of the trend that we observed during the year. And this also reflects a level of competitiveness, something that we consider highly adequate. Another point that I would like to highlight was the expense level in Multivarejo. We presented a relevant drop in nominal terms both in the quarter and throughout the year. This is a result of all the averages that have been mentioned throughout 2018.

AssaÃ also presented a significant drop of expenses deluding GPA Food to 170 bps in the quarter and 120 bps throughout the year. The adjusted EBITDA of GPA Food, as a consequence, presented a consistent evolution of 29.4%. Once again, this results in the solidity of the results both in Multivarejo and AssaÃ.

The EBITDA margin evolution of food was 70 bps in the quarter and 60 bps throughout the year, totaling, respectively, 5.7% and 5.8% of sales.

Now there was a margin expansion in all the business of the quarter and throughout the year in a way that in Multi, we reached our guidance of increasing 50 bps of the EBITDA margin. And in AssaÃ, we outperformed the guidance going to 6% of EBITDA margin.

The other operational expenses impacted the yearly -- it result in BRL 250 million. This is according to what we showed in the year and in line to what we expected throughout the upcoming periods.

Now on Slide #2, we observe that the net profit of the controlling shareholders of the operations increased 88% in the quarter, totaling a net margin of 3.4%. Now in the year, the profit accelerated to BRL 1.3 billion, almost doubling the net margin to 2.6% of sales. Now when we go to Slide #3, we observed that the financial result totaled BRL 60 million. We're talking about 0.4% of net revenue. This is an improvement of 120 bps vis-Ã -vis last year. We had some extraordinary effects that contributed to improve the financial result, mainly connected to the monetary update that affected the entry of financial revenue. Also updating contingency, with this throughout the year, this would be a more broader view, the financial results totaled BRL 474 million equivalent to 1% of sales. We're talking about a 60% -- 60 bps improvement vis-Ã -vis last year. So we are -- this is aligned with the drop of CDI that went to 10.1% to 6.5% between 2017 and 2018.

Regarding our indebtedness, the group continues with very healthy level of leverage of 0.32x the EBITDA and with a net debt of slightly below BRL 1 billion. We ended the year with the solid cash position of BRL 4.4 billion without considering BRL 1.8 billion in credit lines that were preapproved already.

To end the slide, we reached the year, as Peter mentioned, the CapEx of BRL 1.7 billion. This represents a growth of almost 30% vis-Ã -vis the last year, mainly because of the AssaÃ expansion because of the retrofits in (inaudible) and the beginning of both projects of Mercado Extra and Compre Bem. So our focus is allocation of our CapEx to formats of greater return and greater adherence to the consumer market.

Now moving to Slide #4. I will go over the main before turning over to Bazzali. I'm going over the main performance point of Multivarejo. In the Fourth Quarter, we have capped a growth level of one digit, an average that we have observed since March. We continue to maintain a strong control of our expenses and because of that we have achieved a drop of 3% of our expenses. Therefore, we have delivered an adjusted EBITDA margin of Multivarejo of 5.5% of sales, 80 bps above the previous year.

In the annual -- the whole year, the EBITDA margin of Multivarejo reaches 5.5%, that is a 50 bps growth vis-Ã -vis the last year. And also in EBITDA margin that is perfectly aligned with the guidance we delivered in the beginning of the year.

Finally, I'd like to highlight the growth in net income. We have reached a margin of 0.9% in 2018. So this net income is 5x higher than the previous year.

That's the end of my presentation and now I'm going to turn over to Marcelo Bazzali and he will -- is going to talk about the Extra results.

Marcelo Bazzali

Thank you, Christophe. Good morning. It is a pleasure to share with you the results of Extra for the Fourth Quarter of 2018. I'll start by giving an overview of the business performance of this brand and we have achieved, again, consistent advances in all formats.

In the Fourth Quarter, our gross sales grew within the Hiper format with 3.2%. And Super 4.7%, with market share gains in all formats, leveraged by the strong seasonality of that period with Black Friday Cyber Monday and Christmas itself. And also the continuity of our sales activation plan has been more assertive. And the positioning -- the repositioning of the supermarket model.

We have also achieved efficiency gains in productivity in different work streams. But keeping our focus in improving the experience of the customer and also accelerating the profitability of the business. I like to highlight the acceleration of sales performance of Extra Super and which has shown evolution in the same store network. So it was a negative performance of minus 3.2% in the First Quarter. But it moved to positive 4.7% in the Fourth Quarter. This result is due mainly to the revamping of the Mercado Extra stores, a format that has already reached the 30% growth, with a consistent increase in tickets and volume.

We follow, with the expansion of this project, we have already opened 7 stores of this market this year and new stores in the state of Rio de Janeiro and expect to close the

First Quarter with over 20 conversions to the new model, totaling 43 stores.

Extra Hiper maintains a very positive dynamics with consistent sales growth and consistent market share gain. The sales evolution has reached 2 digits in the December and strong evolution in the categories of nonfood products even with the high comparison basis of the previous year.

We have, following our assessment of assortments, especially in perishable category, with improvements increasing to -- improvements in our operational calendar.

In this quarter, we have maintained an increase in the sale share and growth of volume in our own brands, focusing on our strategy both in the Hiper and Super formats. That strengthen our competitive differential markets that we are already present and also generates additional sales for the business. In some regions, we have had 60% increase in volume. And we conclude very successfully the loyalty campaign (inaudible) with over (2.6 million) and parts that have been distributed to hubs in addition to also some sales. And I have prepared a new campaign for March.

In digital transformation, we have recently approved a plan to expand additional 56 stores between Hiper and Super to give them Delivery Express. That will expedite the omnichannel ability between those different groups.

I'd like to highlight that in 2019, Extra brand completes 30 years, 3 decades of a lot of work and innovation pursuing the satisfaction of millions of customers that go through stores every month.

In 2018, we were awarded several awards and I'll just mention 2 of them. We were among the 20 top brands in Brazil based on an Interbrand study. And for the 12th consecutive time, we have been the top-of-mind brand in supermarket. These awards are reason for us to be proud.

I would like to conclude thanking especially the Multivarejo and the Extra team for their dedication and partnership and I'm very pleased to be part of this team. And I reinforce my commitment with the continuity and evolution and acceleration to deliver results in 2019.

Thank you very much and now Laurent is going to talk about PÃ£o de AÃ§Ã°car.

Laurent Maurice Cadillat

Good morning. And thank you for participating in this call. I'm going to comment the main highlights of PÃ£o de AÃ§Ã°car in the Fourth Quarter of 2018, among which the consolidation of our leadership among the top value formats with consistent gains in market share and maintaining our high profitability levels.

PÃ£o de AÃ§Ã°car has presented a growth of 2.2% in the period in the concept of same-stores with improvement in the trend of sales and volumes along the quarter.

I'd like to highlight the sales performance of Black Friday and in December, when we have reached record levels for this brand because of the commercial activation and also promotion activities that we conducted during these periods. And we have observed continuous improvement along the last quarter, which has helped us confirm the market share gains according to Nielsen measurements both in the total stores Brazil as in the supermarket format.

Since September 2017, this brand has shown continuous gains along the quarters. In the Fourth Quarter PÃ£o de AÃ§Ã°car reinaugurated another 3 generation 7 stores totaling 20 stores following this concept. These cluster of stores already represent 18% of sales and about 22% of the result.

As G7 stores become more mature, sales, performance, volume and tickets keep showing a much higher level when compared to stores that have not been retrofit, especially leveraged by perishable categories. These results make us very confident to continue our retrofit plan in 2019 with approximately 10 to 15 stores to be retrofit according to the G7 concept this year.

In addition, all commercial concepts implemented successfully in this new generation of stores will be rolled out to benefit other stores of PÃ£o de AÃ§Ã°car. Regarding the implementation of the operational project of the MO stores the Multivarejo model of operation, sales and excellence, we closed 2018 with a pilot project completed in 4 stores and we start 2019 with the rollout to another 11 stores. We expect to reach all stores until the Third Quarter of 2019. The main results have been, a, reduction of 12 days in stock in the pilot stores, lower stock count level about 200 bps below the other stores and reduction of 85% in the hour bank.

Now talking about our loyalty program PÃ£o de AÃ§Ã°car. The customer base reached 6.2 million people, over 30% growth since the app was launched in July 2017. It already represents 85% of sales of this group.

Out of the total sales, in 40% of tickets there's at least one item acquired based on the product My Discount, which is available through the app. The My Rewards advantage program also shows a positive trend with over 300,000 customers that will reach their target of purchases in the quarter with instantaneous redeem of rewards.

In the end of January, we have completed our campaign where you collect and exchange the small stamps over 105 million and exchanges of products of of about 1.2 million products and we will continue our strategy. Given sequence to our multichannel strategy, the food e-commerce business has had a strong growth -- 2 digit growth in 2018 leveraged by the changes conducted in the side such as a new feature in the app and the expansion of the express model with presence in 73 stores in 12 states until the end of 2018.

Our strategic partnership with Cheftime also shows positive results already and high acceptance level by the customers. The gastronomic kids can be acquired in our website as well as in 23 stores of the chain in the state of SÃ£o Paulo. Our purpose is to offer this concept in addition in about 30 stores until the end of the quarter.

I'd like to conclude reinforcing that PÃ£o de AÃ§Ãºcar brand is the main reference of top value supermarkets in Brazil. Our focus is to give continuity to the strategic plan of the business and to consolidate the results of the already implemented concepts, strengthening the commercial content and including new initiatives to meet the expectations of our clients.

I would like to thank you all for your attention and I'll turn it over to Frederic Garcia.

Frederic Garcia {BIO 1525714 <GO>}

Thank you, Laurent. Good morning. I would like to share with you the highlights of the Proximity business, drugstores. I'd like to reinforce the consistency in sales recovery. 19% involves 21% and customers, 7% in the quarter in the 2 Proximity brands that show the assertiveness of the strategy implemented as of the Second Quarter of last year and also how well our customers have accepted it.

Regarding Mini Extra, which grew 22% in the last quarter, we consolidated the loyalty strategy and categories FLV and bakery and penetration in terms of exclusive brands. We have strengthened the synergy with the commercial dynamics of the Extra brand. And we value target categories such as liquids, snacks. And another relevant point was focused on the opportunities of seasonality in the last quarter. We had great results with that. And we will continue those initiatives in 2019, capturing all seasonal opportunities, for example, Carnaval. We have also reviewed the portfolio of the Mini Extra stores. And we closed down some low-performance units.

These combined actions have allowed us to consolidate the growth that started in the Second Quarter with market share gains on the neighborhood market and a consistent improvement in the business profitability.

In Minuto PÃ£o de AÃ§Ãºcar, which grew 16% in the last quarter, we have promoted the proximation that we started in the last year with the mother brand, the positioning of the exclusive brands, reinforcement of FLV and bakery, which allows us to keep evolving sales and number of our clients in this quarter, leveraged by the seasonal opportunities of this period. As Peter mentioned, we launched an integrated platform in December that combines the physical store and e-commerce of stores called PÃ£o de AÃ§Ãºcar Adega or Cellar, which reinforces the brand as a reference in the sales of wine in the countries. And that also promotes an exposure in some areas where we don't have physical stores.

In drugstores, we had an evolution in sales in the last quarter vis-a-vis the previous one and significant improvement in results focused on the improvement of sales, profitability and operational profitability.

Regarding gas stations, we also had a great performance in the last quarter and had a 2-digit growth both in volumes and in sales and number of clients. Standardization of services, retrofits and commercial dynamics aligned to My Discount programs and strengthening of the brand and price in the gas stations have definitely improved to reach the results in this segment. We have also inaugurated a new gas station in Bauru in December, aligned with the plans we had in the Third Quarter.

For this year, we expect a year of consolidation of the strategies that we conducted last year for Mini Extra, working towards the evolution of profitability in the business, assessing cost opportunities, especially logistic costs, that will be our main focus of work. And we'll work with the store portfolio, making changes to the assortment according to the region. We're also having expansion of PÃ£o de AÃ§Ãºcar Minuto stores, 15 new stores. And a progressive acceleration in the new years. Regarding gas stations, our focus is the improvement in productivity with more investments in technology to improve the service provided to consumers and consequent increase of sales. We have also strongly an expansion in order to double the number of gas stations in the next four years.

Finally, I'd like to take the opportunity on commenting on the business units. In Proximity format, I'd like to thank Laurent and Bazzali and (Calvo), our business director. And the whole executive management team of Multivarejo for their support and implementation of these initiatives. I would like to reinforce our multichannel strategy and our high commitment to the company's strategy.

Now I'll turn over to Belmiro.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Good morning. Thank you, Fred.

The Fourth Quarter, as we saw, was extremely positive for AssaÃ. It's a quarter where AssaÃ has BRL 1.4 billion in sales vis-Ã -vis the last quarter. It is the highest historic increase. This result is due to excellent performance of new stores, a very positive combination of same-store sales that was around 10% and 9.9% above the inflation of the Fourth Quarter, that was 4.1%. Therefore, we had important gains in flow and in customer volumes. And as a result, the company grew not only due to new stores but because of performance. 72% of our growth is because of new units and 22% because of performance in same-store sales. The sale in the year was around BRL 25 billion, an increase of BRL 5 billion vis-Ã -vis last year, an increase of 24.2% vis-Ã -vis 2017. It is important year, where the self-service wholesale channel is stabilized in terms of growth. And the channel dropped in 2018. Within this curve, we have the other players of the market growing 10%, 11%. And AssaÃ is 24%. With this, we had a gain of -- we have a higher share regarding last year. So we have an idea, when we see this in numbers, we increased our share 2.8 million households in the biannual of 2017. 2018, there's an increase of 5 million of households that buy at AssaÃ in addition to the legal entities that are tradespeople. And the amount of people that are trade -- that work in trade is stable. So the business is 46%, almost 47% of GPA Food, contributing with the sales growth of the company.

The result is because of commercial dynamics, a number of commercials that were deployed throughout the year, both in Carnaval, Easter, Black Friday and mainly the anniversary campaign at the end of the year that was our peak of share throughout 2018.

We have also strongly worked in operational excellence in not only regarding new stores but improving our day-by-day operation when it comes to service to customer, supplying company, less ruptures and automating our -- and optimizing our operations during the Fourth Quarter's (DLB). Although we had 10 new stores in 6 states during the Fourth Quarter, the new stores suffer pressure on margin. But all of these investments in margin were offset mainly by the improvement of the percentage of breakage and various specific negotiations with suppliers. With this, we're stable regarding last year and improved 0.1%, although with the growth in sales and new stores DLB here, it goes from 16% to 16.3% when we exclude nonrecurring effect, an increase of 0.3percentage points. Christophe already mentioned the Fourth Quarter, although there was expansion in new stores, these were carried out in a number of states in Brazil.

We had a drop in expenses. We're already working with lower expenses. The expenses now are around 10% of the net sales. So -- and it was below 1 digit, although with all the pressure that we suffered. Great part of this is a result of the gain of dilution of expenses as same-store sales are above inflation. But I would like to highlight a number of optimizations. We're pursuing operational efficiency, accelerated maturity of new stores and a number of dynamics that engage all the areas of the company.

As a result of this, the EBITDA during the Fourth Quarter has increased 0.7% vis-Ã -vis the past 1.7% is constant when we exclude the tax credits. So nonrecurrent effects, according how you see the EBITDA, it has evolved, showing better maturing of our stores, better maturing of AssaÃ operation.

The highlight of the year in terms of financial results, net income of the year is above BRL 1 billion. And now this is a company that has been growing in the past year at 30%. There has been an evolution not only in the sales volume but only in the results of the EBITDA and net income. The financial disciplines, mainly working capital, inventory management, although AssaÃ has a strong investment year-on-year in new stores, this doesn't impact the financial expenses because the expansion has been done in a sustainable way. So the net profit over 60% of the EBITDA becomes (LL) of net profit.

So expansion is one of the drivers of AssaÃ. We've had 18 new stores throughout the year. Our target was 20 new units. But AssaÃ wants to be assertive in it's expansion. The speed to mature is important. Also, the return over expenditure is -- of capital investment we -- the year was concentrated on states where we were already present. We opened stores in Amazonas, Bahia, ParÃ¡, CearÃ¡, Sergipe, Rio Grande do Sul, Rio de Janeiro, GoiÃ¡s, GuarujÃ¡, Minas Gerais. In these states, we built over 122,000 square meters of facilities and 540,000 square meters of plot of land. Once again, this expansion has been self-sustainable. The lowest impact in gross profit and expenses is a reorganization of management processes and especially a higher level of autonomy and maturity of our regional structures. So practically last year, the new stores were more execute -- were executed by people that give support than by SÃ£o Paulo. There was a great effort to complete these 18 new stores. The construction process is highly known by our team and all our partners that worked with us. As a highlight, we opened CamaÃ§ari on December 22. And this store was built in only 78 days. And this from the first brick to the first customer.

Regarding the numeric results, the engagement of our team, we believe that the engagement of our team is 80%. It is a company that grows and adds 25% of employees. And moreover, this has become -- this has turned into results, the investment not only in the maintenance of the store but it's expansion. AssaÃ, for the first time, now in 2018 was amongst the ranking of the 25 more valuable brands. So AssaÃ, for the first time, is amongst this ranking. Now the project of AssaÃ, a financial solution that is underway, with over 600,000 cards issued, something that I would like to thank all the areas that were engaged throughout 2018 and the previous years in this process of continuous improvement of results expansion.

And also to enter new cities, we have had all the effort of our team. And this has resulted in growth and sales. Last year, we had over 5,000 new working position. They ended the year with 34,000 employees. And in 2019, we will have approximately 40,000 employees contributing not only in our work but also the expansion, has also helped us in investment. And we -- this has also help the civil construction industry that is benefited. Our target is to exceed the BRL 30 billion. We want to go to different states, different than '17, '18, where we strengthened our presence. This year, 2019, AssaÃ, once again, wants to go to new cities. We have stores expected to open in AmapÃ¡, Tocantins, Roraima, RondÃ´nia and MaranhÃ£o. We are in the last details. AmapÃ¡ will mean our first store in the Northern Hemisphere, increasing the capillarity and the distribution throughout the nation. We trust our same stores. But the new -- and the new stores of 2018, Peter said that the new stores in 2018 presented the best result in terms of speed, greater sales per square meter. Some adjustments in our stores have been made even when we think about construction, the environment of the stores, some self-sustainable, like the photovoltaic panels that we have in some units not only optimizing expenses but adjusting ourselves to a more demanding consumer. Our target is to combine low price; but not only low price but giving a good service and a good environment, where the customer feels comfortable; and to maintaining, of course, our performance in our financial results.

And I give the floor back to Christophe.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you very much, Belmiro.

Well we will end with the last slide, Slide #8. We would like to highlight the outlook of 2019. So in terms of net income, we expect both business units to grow in a significative inflation, 100 bps of Multivarejo. And in AssaÃ, we're talking obviously about a like-for-like growth, which goes from AssaÃ to the total expectation for the year, slightly above 20%.

Now in terms of profitability -- recurrent probability, we -- excluding any tax credit effects, we expect an evolution of 30 bps in Multivarejo. We delivered 50 this year. And we expect another significant expansion of the EBITDA margin of AssaÃ of around 30 to 40 bps vis-Ã -vis 2018.

Now according to what we delivered this year, well, we expect other expenses of around BRL 200 million. We will continue as well strongly focused on investments. We will mobilize BRL 1.7 billion to BRL 1.8 billion in CapEx, always focused on the balance of our portfolio and the expansion of AssaÃ.

Well at last, the digital transformation, I'm not going to go into details. But yes, this will be a strong focus during 2019.

Now I give the floor to Daniela so that we can entertain questions and answers.

Daniela Sabbag Papa

Now we -- so now we will have a Q&A session.

Questions And Answers

Operator

(Operator Instructions) Our first question from Thiago Macruz, ItaÃº.

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

Your prospect of the EBITDA margin expansion for AssaÃ and Multivarejo for 2019, my question is what are the main drivers of these -- the drivers of the expansions of the 2 segments. And I would like to know about PÃ£o de AÃ§Ãºcar brand. Do you believe that 2019 where this brand will continue with the same level of profitability and growth? Or do you see an acceleration contributing more with the same-store sales of Multivarejo?

A - Unidentified Speaker

I will answer the PÃ£o de AÃ§Ãºcar question first. I hope that PÃ£o de AÃ§Ãºcar keeps a positive growth level above the inflation rate, as it has been having in the past years. We have been gaining market share for a significant period of time. Our expectations in terms of March contribution of PÃ£o de AÃ§Ãºcar, with the projects presented by Laurent, especially of the generations have in stores and also (more the) management model indicate that there is a possibility of having a positive increase in the results because of that. PÃ£o de AÃ§Ãºcar remains the most profitable brand. And our focus is to keep on improving this profitability.

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

This is Belmiro. The prospects for 2019 include an inflation rate that has not been so low as the last year's. And this allows you to dilute expenses in wholesales because the level of expenses are high in this business. Our expectation that we need to confirm over the years that stores will become more mature according to the initial sales that we have observed and also the effect of investments in other stores. That is a delicate balance between new -- opening of new stores and stores becoming more mature. This has an effect on the margin. But when you look into new stores compared to the total number of stores opened in 2018, we are confident that margins will increase. Of course, there is a variation in the EBITDA margin because the plan is adjusted over the year, depends on the weight of each new store, depends on the geographical distribution, too.

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

Regarding Multivarejo, the main drivers of the expansion of the EBITDA margin are related. So project of adjustments of portfolio, especially the Compre Bem market project, it produces increase in the margin. There's another work stream that also has an impact on expenses and focuses specifically on logistic costs. We expect improvements in that area as well as improvements in the level of rupture, too, in Multivarejo. That will be the 3 main work streams. We do not plan to make changes in margin or competitiveness and price. We are operating at a very appropriate level meeting the needs of the market.

A - Unidentified Speaker

I would just like to add an important point, add to something that Christophe mentioned. In addition to those 3 initiatives he mentioned, there is an impact that is not going to be so strong in 2019 but will start in 2019, which is our strategic project of increasing the ratio of our own brands, our private labels. So having products with more competitive prices and with better margins than products that come from the market. So there is going to be a contribution from that initiative related to private labels. And the penetration has been very effective in all formats of Multivarejo. That's very clear, thank you.

Operator

The next question comes from Gustavo Oliveira, UBS.

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

I have 2 questions. One is to Belmiro related to the guidance. You were working with gains above the inflation of about 4%. And your guidance assumes 2%. I would like to understand why you think there's a deceleration regarding inflation. Maybe it's because of basis of comparison of the first half of the year and the expectations of inflation. Maybe you can work more strongly then. Then in the second half of the year, you can expedite or accelerate the initiatives. So I would like to know about that. Then second question has to do with conversions in Extra Super. Do you plan to convert all stores this year to market at Mercado and Compre Bem? Is that your plan? Or do you think that, that will take longer, more years?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Of course, the growth rate of the past years establishes a reference to us. So we want to grow 4% and 2 over 4%. So when you look at the indicator of sales per square meter, we have the highest operation in that. Of course, dynamics intend to pursue better results. But we have a 2% rate of self-cannibalization because we are opening not only stores in new states but also opening stores in states where we already have stores. In Teresina, for example, we had one store. Now we're trying to open a second store. And there is no effect sometimes in cannibalization in individuals. But there is that for company purchases. So because of the expansion and because of the base effect of the past years, it seems to us that 2% is a very ambitious rate and very realistic rate for us to establish as a guidance. Regarding conversions, we are working very strongly and very close with the Mercado Extra. We have analyzed data and performance of the stores. We have a very clear perspective of where each format, Compre Bem or Mercado Extra, performs best. And right now, we are establishing which are going to be the stores that are going to be Mercado Extra or Compre Bem. We expect to expedite these initiatives considering the results that those 2 markets have presented. We believe that until the end of the First Quarter, we'll have a very clear perspective of which stores will be converted to each model. It is difficult to convert all 186 stores, that Extra Supermarkets into these 2 models this year. But we'll try to do as much as possible this year.

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

Thank you, Peter. I think your mic is chopping. So maybe you should make some arrangements to that before the next questions.

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Would you like me to repeat what I said?

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

No. I think I understood what you said. You said that the process might take longer than one year. But you want to give more visibility to this initiative in the next month.

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Yes, I think it's important to say that we're going to expedite those conversions because we know exactly where these models work better because both models are very positive. And we're trying to do this as fast as possible, convert stores as fast as possible. I'm also seeing in -- we had 186 stores in total. And hardly, we will be able to convert all these stores to either one of these models. But the conversion initiative will be conducted in an expedited way. We have different projects for each model because the competitive market where each model is inscripted is different. And results are being very satisfactory. So we're trying to do this as fast as we can.

Operator

Next question is from Ruben Couto, Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

I have 2 questions related to AssaÃ. This 30 to 40 bps expansion of this margin has to do with expense reduction effect or has to do with tax credit reduction, too? We have 12 to 18 from last year. So this 20% increase that you expect might lead you to increase market share. But could you share with us what has been going on in this segment, maybe stabilization because of a trade-up of format or maybe stabilization of the expansion of smaller players? I'd just like to understand how you expect growth to be in this year.

A - Unidentified Speaker

Thank you, Ruben, for your question. No. This expansion of the EBITDA margin does not have any tax elements considered. This is -- analysis is being done separately. The operational analysis, of course, it is complex. There is the maturation of stores. And this has a very strong effect on the expansion. There's also the expectation of inflation rate just as why there is the dilution of expenses. And this is why we feel we will be able to meet this guidance established for 2019. Of course, there is the effect of expansion according to the schedule of expansion. And if there are changes to that, we can reposition in the future. But right now, we are comfortable with this target. As to the channel growth, it reaches 61% market share last year. So households in Brazil, 61%, with the food format with the highest level of penetration used to be supermarkets; and the past year, especially in the past decade and also after the economic crisis, changes in the format. But as we can see, it's reaching a level. This format is present all over Brazil, operated by different clients. There are 2 analysis that can be made. One, we can see how far this channel can get, what is the level of saturation, when does it reach stabilization levels. But we also see AssaÃ competing with other players in the market. In 2019, we believe that this format will have a rate similar to 2018. We will not see a growth in the format above 12%. But in our case, we have several states and several cities where the value proposition and model is not present yet. And although it's just one segment, each company has its own features, some positive points to provide to customers or companies that buy from them. So when we see the possibility of expansion to new states and cities and when we see new services that are being added to our business, then we feel confident that this year, we will reach this growth rate. The fact that we opened 10 large units in this new format in the end of 2018 also has a natural effect of capturing sales along 2019. And that will contribute to this growth rate that we have indicated. I hope that answered your question.

Operator

The next question is from Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

My first question has to do with the G7 format. I would like to understand the (potential) of this retrofit. So -- or remodeling. What have you seen in the past months related to the impact in sales per square meter for that brand in profitability and activation of private labels? The second question has to do with James. You have bought a super app, maybe a base for the super app. And you're testing that in Curitiba. I would like to know how willing is the group to put more money to run that because super apps usually require very high acquisition costs, usually over BRL 1 billion? And to wrap up, I would like to understand more clearly your strategy of the investment of the retail segment. I thought that a swap in December seemed an indication that you were about to sell that business and that the company was waiting for a more strategic moment to do that, maybe later in the year. But now there is a stack and block of that. Should we wait? Should we expect more transactions like that over the year?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

I will start by answering James question. As I've mentioned, we are testing this platform in Curitiba both in the PÃ£o de AÃ§Ãºcar and Extra stores with excellent results. Very quickly, we will expand that service to the city of SÃ£o Paulo. And we will roll out this initiative very aggressively next year. The difference between the acquisition cost of one client from a traditional super app and James, James is a super app of GPA. James was designed already integrated in our multichannel, multi-retail, multichannel strategy. So we develop all activities together. So the acquisition cost required of James in GPA is much lower than the acquisition cost of other apps. So we are very optimistic about it. We want to expedite its participation in James not only in our business but also in other services, in other cities that we expand to. We expect James app to grow very much in the next three years. And the preliminary results we have achieved in Curitiba is very good.

A - Unidentified Speaker

I'm going to -- I will talk about the performance. As you -- as I mentioned, our stores have presented a much better performance than of the others. We had the 7 bps. And as what we presented at the end of last year in our GPA Day, it's important to highlight within this scenario, the Fourth Quarter, our stores presented an accelerated performance of market share because for categories, we have fruit, vegetable, meat. And we had an increase in market share here. And this dynamic is driven mainly by the increase of penetration of perishable goods. And this gives us more profitability in this format. When we talk about the exclusive brands, well, this is part of the new value proposition. And we have seen in our portfolio Taeq brand that have a central brand as a well-being brand with over 160 organic products. And this is part of our effort to show this portfolio that is an exclusive portfolio. So we confirm performance above the other categories in profitability, volume and also in terms of customer evolution.

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

Thank you very much, Joseph, for the program. I will talk about Via Varejo. Now the first TRS that we implemented at the end of December has already ended the first test. Why do we want to confirm our strategy of disengagement of Via Varejo? Nevertheless, I would like to highlight a number of aspects. One is that the second trimester -- quarter is of a magnitude that wasn't very significant. We are talking about 3% of the capital. This means that after the second TRS, we don't have a strong economic exposure of over 36% of the capital of Via Varejo. And we maintain the control of the company. For the upcoming period, I do reiterate that our privileged exit was through strategy. Our discussions are taking place but -- or are underway. But this doesn't mean, as we mentioned at the end of last year, that we do not want to resort to a market operation. If we're going to have another one, the decision hasn't been made yet because this strongly depends on the market condition. What encouraged our first TRS was a market. Well we have -- we thought the market was favorable. The second is driven by the same reasons. I would like to remind you a very important point, that within this TRS mechanic, we capture the upsides of valuation from the market. Like for example, the share of Via Varejo increased 20% in January. We captured this. And we understand that as the share is relatively devaluated, this is our instrument that allows us to fulfill our strategy of disengagement and to capture the upside of our -- that the market reflects on our share. Now this does not mean that we will not have others; perhaps we will. But the market isn't signalizing this. But once again, I would like to reiterate our will of having a strategy.

Operator

(Operator Instructions) The next from we have the next question from Thiago Bortoluci, Goldman Sachs.

Q - Thiago A. Bortoluci {BIO 20909105 <GO>}

We will like to elaborate -- would like you to elaborate on private label. You mentioned the -- an expansion of penetration in the upcoming years. Could you break out the difference of the margin of private label regarding the reference product and what is the contribution of 20% for the consolidated brands? Now the apps, do you have a plan to consolidate all your apps in a super app or 2 or 3 super apps for your main brands? And if you -- a third question regarding investment, could you remind us how the sell-on work in Via Varejo, the tag-on works on Via Varejo?

A - Unidentified Speaker

I'm going to answer the 2 main question. Regarding private label, we do not disclose margin differential results. This is a strategic reason. I am not going to go into this level of details. What we can say here. And this is something that we have mentioned, is that, yes, we have a plan for -- up to the year 2020, we want to reach the 20% of private label share in the total of the Multivarejo. We do know that the penetration rate varies according to the format. Just for you to have an idea, the Mercado Extra format, we already have participation rates above 20%. So in the Proximity segment, especially in Minimercado (Extra), the penetration rates are high as well. Therefore, we're totally convinced that this is a competitive differentiator. And we -- and our customers become loyal with this strategy because they have a product of high quality at accessible price. And our margin here is more interesting. When we have our private labels, when we compare it to the reference products, we do not disclose this value. Regarding the super app, if there is a trend to consolidate all of our apps, of course, we always assess this aspect. In the future, perhaps, we -- there will be a trend to consolidate the pre apps and all in a super app. But this currently is not our priority. Our priority right now is to increase the James super app in food, (accelerating) to expand the James services to other categories and also to speed -- to accelerate this. And we want to have robust James apps in our -- in Multivarejo. But we always see the trend of consolidation. But this right now is not our priority. I hope I answered your question.

Q - Thiago A. Bortoluci {BIO 20909105 <GO>}

And what about the tangle -- tagalong in Via Varejo, what is this tagalong? Is there a tagalong in Via Varejo? And what defines the control to expand the tagalong?

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

Thiago, we're going to go give you details. Well we have public information that we can -- there are things that we can disclose and other things we don't know if we can disclose right now. So my proposal is to -- we can talk about the specific point. The tagalong, theoretically, is regulated by B3. There is no specific point regarding this matter but...

Operator

Our next question, from Tobias Stingelin, Citibank.

Q - Tobias Stingelin {BIO 20764287 <GO>}

I would like to go back to Via Varejo, Christophe. But let's say that we have more sales. If they don't happen, what are you going to use these funds for? Can you accelerate sales conversions? B, do you have a physical restriction, restriction of headcount to -- for the conversion of new stores? I would like to understand what you're going to do with the new funds that will come inside the company.

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

Tobias, when we announced the intention of selling our part of Via Varejo, we mentioned that the funds from this -- from the sale will strengthen our strategy of digital transformation and all of our strategy of business expansion in the GPA. So this may and will strengthen precisely these 2 items that we have already set forth in the beginning when we defined the sale of Via Varejo.

Q - Tobias Stingelin {BIO 20764287 <GO>}

But let's say in your guidance, in the relevant fact, you released a guidance with the sale of 3%. I don't know how much more you will sell and when. But had something changed with this? Can you have -- can there be an acceleration of your expansion, or is everything included in your guidance? And what about sales conversion, can you accelerate this to 180?

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

Well Tobias, let me say something. The acceleration of investment always depends on the market conditions, by and large. So we already have a very robust investment plan with BRL 1.7 billion, BRL 1.8 billion. Now if the market is positive, we can accelerate here, yes, our investment. Now store conversion is our priority, both in the supermarket Extra format for Compre Bem and also the PÃ£o de AÃ§Ãºcar conversions and also the expansion of Minuto. Yes. We can review these figures. But currently, we have no expectation to increase this investment. As, Tobias, just adding to what you just said, well, there -- this is not connected to the Via Varejo processes. GPA has a level of leverage that is very low. So we can expand this. And the CapEx volume that we establish every year is being financed by our capacity of self-financing in the group. So these proceeds are not necessarily to -- for acceleration. We are at a highly accelerated pace. And we can imagine that these proceeds will -- can help us to improve the management of working capital. I don't know, I'm thinking about a number of things, of accounts receivable that mobilizes a lot of funds constantly. So we're talking about a way of better managing resources and potentially an additional CapEx and, obviously, the capacity that the group will have to pay out dividends to their shareholders.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Okay. Now that you spoke about -- to preference of selling to a strategic partner. And you said that there are conversations underway. What is happening? Is there a process? What is the situation regarding this point? Can you disclose information regarding your strategy?

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

Well things are making progress. It is favorable. Things are becoming more clear. A macro scenario, yes, is attracting potential investors. Well more than this, Tobias. You know that I cannot disclose this information because I just can't. But yes, I do confirm that conversations are underway.

Operator

Next question is from Gustavo Oliveira, UBS.

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

Regarding stock, I thought that you have first signed with the deadline of one year -- of the swap. Christophe, I'm not sure whether in this next agreement you're going to have, the next swap you're going to do next, will that have an impact on valuation? Should we expect a higher valuation till the end of the year? Maybe another contract could give you a better valuation. I'd like to understand how much should we include as valuation. I'm not sure whether this is going to be possible.

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

I can give you some details. If the first contract we signed in December 28, indeed, expected maturation time of 12 months and expected that because we did not have migration to B3, we did not have good visibility of how -- what kind of levels of volumes we would have or the visibility about the capacity of the market to absorb that. So this first contract, the performance both in pricing and in volume was much beyond our expectations. So this agreement ended in 50 days. But we expected initially one year. So supposedly, this is one of the drivers for the second one. And I'd like to insist that this second TRS is a way of concreting -- making concrete this disengagement. But it represents just 3% of the capital. But in other words, it does not change -- or it doesn't change a lot our economic exposure. And it does not change at all in terms of control perspective.

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

In the bylaws of Via Varejo, I think there was recent one that was approved in November 26 (sic) (November 2016) in Chapter 2, says that a tagalong could be 20%. So if somebody purchases more 20% of the company, this would lead to an OPA. That has to do with the previous question. I'm not sure whether you intend to sell less than 20% in the total returnable swaps, or I believe that maybe you could negotiate with the purchaser strategically?

A - Unidentified Speaker

Gustavo, you are right, it's up to 20%. And Christophe has already clarified the points that we believe that needs to be clarified now. Yesterday, we disclosed the material fact on that. And the most important point. And which is reinforced by Christophe and Peter, is that we are clearly reinforcing the decision that was made in the company in November 2016 to focus on food. So that's good news for the market. And we are doing that in a way that we believe is the best way for Via Varejo and for Via Varejo shareholders.

Operator

Our next question is from Pedro Fagundes (sic) (Pedro Bueno), Bradesco BBI.

Q - Pedro Bueno {BIO 19139352 <GO>}

I have just one follow-up related to online business. Can you share with us something related to the profile of consumers that is using this channel, the online channel? We would like to understand whether this growth has to do with consumers that are migrating from one channel to another or whether you are getting new consumers because of the app. Could you share with us any details related to this?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

This is Peter. We have a well-balanced mix of consumers. Part of them are consumers of all our channels in different points in time they choose to use one channel or another. We also have a mix of new clients. So there is not a dominant channel at this point. The positive side is that we've been able to capture new consumers considering that our food delivery platform is the largest one of the retail business in Brazil. We also know that consumers that purchase using both channels, they purchase twice more. This reinforces our strategy of omni-channel. With that, we can capture more valuable consumers. They spend more money with us.

Operator

Next question from Tobias Stingelin, Citibank.

Q - Tobias Stingelin {BIO 20764287 <GO>}

I'm sorry, I need to follow up. Just like to take something related to Gustavo's question. The total return swap had a period of one year. That was the expected period. But you proactively decided to cancel it after 50 days. Theoretically, could you carry it on until the due date?

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

It's not that we decided to cancel it. I don't know what's the right word for that. But maybe the instrument was depleted in -- much faster than we expected for 2 reasons: first, because the volume of transactions was significantly higher in this period than usual; and secondly, because the market has absorbed that without much problem. So it's not that we canceled the contract, just the contract performed itself. So to speak.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Yes, maybe you could hold this bond for a longer period of time. But if you wanted to protect the upside. And liquidity is higher, shares are higher grade, you sold it. And you put your money in your pocket. But if the liquidity was also higher at the end of the year, you could have waited longer. I just wanted to understand the strategy behind it.

A - Unidentified Speaker

Tobias, when we signed the contract with the bank, we determined some premises. At the date of the signature -- the agreement. And the bank manages the contract based on those premises. This was done in December. And the bank, based on the premises, agreed upon on that date, did the best way it could. And the best way it could led to what Christophe has just told you. Our upside was significant because the shares of the company had a significant increase with the significant liquidity that allowed it to be ran at a speed that the bank found appropriate that would not have any negative impact on the shares. So that's a decision the bank makes after you sign the contract with it. I just want to make this point clear.

Q - Tobias Stingelin {BIO 20764287 <GO>}

I think it is clear because the upside that you first expected just took place. And then you sold it.

Operator

The Q&A session is completed. We would like now to turn the conference back to the company management for the final remarks.

A - Unidentified Speaker

Well to wrap up, once again, I would like to thank the dedication and effort of our team of executives which are -- which is here with us. And I would also like to extend this thank you to all employees of GPA Food for their work and engagement. This engagement is crucial so that we can deliver the results that we presented to you in the guidance for 2019. We will keep on working on our business strategy to ensure the ideal portfolio of products and services to our consumers. And we have a very positive expectation for the macroeconomic scenario for Brazil in 2019 and the consolidation of the positioning of each brand in its market. So we are very confident about the evolution of the results that we have promised to you for 2019. Thank you.

Operator

The teleconference of GPA is completed. The Investor Relations department is at your disposal to answer further questions. We'd like to thank you for your participation. Have a nice day.