Q1 2019 Earnings Call

Company Participants

- Leopoldo Saboya, Administrative VP, CFO & IR Officer
- Luiz Fernando FogaÃ§a, CEO, Administrative VP & Member of Board of Executive Officers

Other Participants

- Luiz Felipe Poli Guanais, Research Analyst
- Marco Calvi, Research Analyst
- Ruben Couto, Research Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to CVC's First Quarter 2019 Results Conference Call. Today with us we have Mr. Luiz Fernando FogaÃ§a, Chief Executive Officer; and (inaudible), who is also Investor Relations. Today's live webcast and earnings release can be accessed through www.cvc.com.br/ir. The accompanying slides are available for download at this webcast platform. These presentations were presented in BRL based on interpretations issued by the Accounting Association.

Before we begin, we'd just like to say that forward-looking statements are based on the beliefs and assumptions of CVC management and information currently available to the company. They involve risks and uncertainties because they relate to future events. And therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Luiz Fernando FogaÃ§a, Chief Executive Officer, who will begin his conference. Please, Mr. FogaÃ§a, you may proceed.

Luiz Fernando FogaÃ§a

Good afternoon, everyone. It's a pleasure to begin this conference call about our First Quarter 2019 results of CVC Corp. Regarding today's agenda, we're going to be talking about the main topics for this quarter. Then we'll talk about our financial results split by Brazil, Argentina and consolidated results. And finally, we'll begin our questions-and-answer session.

To start off on Slide 4. Before we discuss our quarter results, I'd just like to reinforce some of the points in our strategy. CVC Corp is the only company in Latin America working in all segments tourism. We're leaders in Brazil in leisure segment, aerial consolidation and hotels in the offline channel. So we have over 1,300 exclusive stores with the CVC brand. And we're present in over 7,000 independent travel agencies. And for the last dozen consecutive quarters, we've had robust growth in the online channel with profitability.

In 2015, with the 8 acquisitions we made, we diversified the company's revenue sources. And now they are represented in balance between leisure and business, thus reducing results volatility. Right now we are in transition process between multichannel to omnichannel with the introduction of new technologies and platforms that will make our customers' experience more powerful.

Another important pillar in our strategy is our expansion into Latin America, starting with Argentina, the third biggest market behind Brazil and Mexico and the country with the highest number of passengers to Brazil, inbound and outbound. With the 2 acquisitions we made in Argentina, Bibam and Ola, we are already the second player in this market. We believe that Argentina market will recover in the next 2 to three years. And we're going to consolidate our position in that market.

Starting this quarter, we're going to begin reporting results of our operations in Argentina and in Brazil separately. One of the pillars of CVC's success was making tourism more democratic. We provided access to the middle class to travel and vacations. For this, paying in installments is an important factor, making it fit into our consumers' monthly budget. Currently, over 40% of trips are paid with credit card. And nearly 40% are paid with billings through partnerships we have with financial institutions. We took the credit risk for a small share of our travels through our credit desk, which had an increased share from 5% to 11% in the last 12 months. It's important to highlight that sales through the credit desk are 100% incremental. And they presented positive results in the First Quarter of 2019, representing BRL 6 million. And that takes into account all the inherent costs, including the upfront costs.

We have to highlight that we are now the third level of approval for a credit after our financial partners. But we have already tested CVC as an alternate to be the first approver for a portfolio that has lower level of risk and defaults. Even with this new movement, the internal credit desk will not go above 15% by the end of the year. Our goal is not to reach 15%. We just want to have some visibility for you that now we're working only as the third approval instance and that we could reach 15%. And that 4% would come from a portfolio that has a much lower risk and that would make us more visible in approving, understanding customers' profiles and understanding the market. This is something that's done right now with our partner financial institutions.

So moving onto Slide #5. This describes Avianca's situation. As is generally known, they filed for a court reorganization in 2018, when we had BRL 200 million in future flights booked. In March, they announced several flights being canceled, including international flights. And we were able to rebook these flights in advance with no greater impact. Until early April, they had been flying their domestic flights regularly. From mid-April, the situation worsened with repossession of part of its aircraft fleet authorized until Easter. Even with this adverse event, we were able to rebook our patrons almost completely.

After the Easter holiday, Avianca lost another 17 aircraft, reducing its fleet to only 6 planes. From that moment on, we decided to tell our clients to no longer go to the airport because the chance of having a rebooked flight would be very low because of that cut in aircraft and also because the market did not have enough time to readjust. Up to now, we have had reimbursements and costs with rebookings representing BRL 10.2 billion, which has already been reflected in our financial statements of this quarter. But they're being treated as extraordinary items. Our understanding is that with their auction on May 7, many companies would take these canceled flights that Avianca had. However, the auction was suspended on May 6 and it's still suspended due to a legal ruling. And we'll continue following this closely to see what happens.

It's worth highlighting that through daily management, we managed to reduce future flights from BRL 200 million in December to nearly BRL 100 million right now. In mid-April, about BRL 50 million in flights were used. And we'll continue making all the efforts to minimize that impact to our clients and to the company's results. We also have to highlight that these flights are distributed until the end of the year. And over time, these flights canceled will be substituted by other airlines.

Moving onto Slide #5 (sic) (Slide #6). So this shows our First Quarter results in a more general sense. We have double-digit growth in all of the main results measures in the company: 14% in bookings and in revenue, 15% with normalized EBITDA and 17% with the adjusted net income. This is, of course, for the Brazilian operations. When we include Argentina, which is right now facing a major economic recession, we still continue growing with -- by 2-digits, 12% in bookings, 11% in net revenue, 15% with normalized EBITDA and 20% with the adjusted net income.

The next slide discusses the structure we have implemented in our digital team. We are still in an ongoing digital journey, where we foresee our team, which already has 140 employees and should finish the year with 200 people. Here, you can see we have the digital marking, planning area, digital products, which includes all coders. These are cells and quads that are completely autonomous to develop products. And we also have a more recent cell for data science, CRM and data analysis.

Slide #8 now shows our new digital products. So the new teams are already delivering digital products. We already have Submarino Viagens for Android online. And it's being used for flight. It has a better conversion. And its checkout has improved by 1.7x. It already has the functionality and the speed that's equivalent to most well-known platforms in the tourism market. And we're also developing it for the iOS platform. And it will be concluded and made available during the Second Quarter

Moving onto Slide #9. Here we see our digital products as well. And they are already beginning for the CVC platform. So we're already having a new page for cross-selling air and hotel and the Android app, which has cross-selling right now for travel insurance. And for the next quarter, we will also have other products available at the destinations.

Looking at our hotel platform, which was developed for Submarino Viagens and which is already 100% rolled out for all users. This is a platform that have a very good level of conversion. It's twice as much as the previous platform. And with the measurements we made, we are using a Google software measuring speed, access and so on. We already have a score of over 90% higher than many other platforms, even global ones. So our speed fell from 8 seconds to 2 seconds. And we already have much better content. And the products available and geolocalization, maps. Everything is available there at the same level as the best platforms for hotel bookings in the world. And this, of course, will be launched into CVC.com in the Second Quarter.

Slide 10 shows how we made our stores -- our physical stores digital. As we mentioned before, we are already testing digital platforms that will be introduced in 2019 to our over 300 brick-and-mortar stores. Obviously, we're going to have different displays for different kinds of stores, depending on what kind of client visits our stores and depending on the region of the country. So we are already opening 2 stores with this new format in the Second Quarter.

I'd now like to give the floor to our CFO, Leopoldo Saboya, who will talk about the company's financial results.

Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, FogaÃ§a. Good afternoon, everyone. So let's continue the presentation showing our financial results at CVC. Starting with Slide 12. First to discuss the results in Brazil. Our net revenue totaled BRL 440 million, a growth of 14.4% or BRL 55 million in absolute terms. Our take rate was 11.75%, a slight drop of 25 bps when compared to the previous year. And this was basically due to a mix effect. We had a higher growth for some of the business units, Submarino and RexturAdvance, which has a smaller percentage take rates than the rest of the units.

And also when we look at leisure, we had an increase in cruise ships more than other products. And it presented a growth of 35% in the First Quarter. And as most of you know, this is a segment with a smaller-than-average market, about 4% smaller.

Now when we look at these different leisure products, national and international did not have any changes in their take rates in this 1-year horizon when we look at that individually.

Cruise ships, though, is -- are important to highlight and this is shown in the next slide. Here, we can understand what happened because of the new way in which we're doing our accounting. Margins were reduced. But this is temporary because it's already addressed for the next seasons because this took place at the end of last year. So most of the '18, '19 season from November to March roughly had already been sold. With this reduction in margin, which we can see in the table is already addressed. And in this case, I'd just like to highlight something to make it very clear. We only did this for one specific contract, Pullmantur. And the company is now working as the principal in this operation. Recognizing gross value of selling cabins and their costs and segregated DRE lines, which of course has a temporary effect in our net revenue, as shown here on the slide.

Just to highlight, as we had already seen last year, booking is the same, BRL 83.5 million. Gross revenue are the difference between the costs and the revenue. And this was our revenue line. Now it becomes BRL 12 million. And we did the taxes and costs until we come to our gross profits, which will be treated in this report in the same line as the net revenue just for comparison, both for the past and for this contract.

It's also important to highlight that because of this new way of accounting and because of higher taxes, we have a reduction of 14% to 9%, which is what I mentioned previously when I compare '18 to what we are accounting now. When you compare '18 to '18, it would be the 14% to 9%. But now when you look at the normalized 14% to now, it would be a drop from 9% to 8%. This is what we have addressed in the next season.

All right. So the next slide will talk about operating expenses. This has a lot of information just to show some of the impact that came from different factors. First, we have to say that our operating expenses grew by 18% -- recurring operating expenses grew by 18% in this quarter. We saw a reduction of operating expenses with bank fee slips of 14%. And that would have the same effect as normalized EBITDA in this slide because we believe that this was the best way of noting our operational performance.

Regarding G&A, it grew by 7.5%. If you exclude strategical consultancies and G&A expenses which were not listed in 2018, this grew by 4.5%, which is in line with inflation. Our consultancies will conclude in the Second Quarter and one (mat) base of zero opportunities. We have all of those process. And the opportunities will start to be captured now during the second half of the year. We also had operations to see Visual and Trend synergies, especially because of systems and incorporations of companies.

Expenses with sales are interesting. One of the first impacts was PDD, as we mentioned early last year. I'll give more details on that in the next slide. Credit card expenses are also a consequence of the higher growth in RexturAdvance and Submarino because of the change with our business model with 2 airlines. Clients started having transactions in these companies instead of using airlines themselves. So our credit card fees go up.

About this last point, it's important to highlight that first, our operation with these 2 airlines have better commercial conditions and that created a positive impact for our net revenue after allocating all of the inherent costs, even working capital, in these operations. And second, these 2 operations are no longer ongoing in April because of market conditions, meaning that we are going back to the previous model where cards are used directly at the airline. It's also unfortunate to show that these impacts will be shown gradually, both in recognizing these expenses and their impacts in working capital because this expense is only seen when patrons fly. Now other operational expenses had an impact from the several contingency provisions. This grew by 27% in comparison to the First Quarter 2018, partly due to the growth in sales. But also partly because of fees increasing in airlines and also improvements in digitalization of the legal system, making these lawsuits faster. It's important to highlight that despite this increase, the number is becoming stable from now on, as we can see on this slide in the lower left corner.

Moving onto Slide 15. Let's drill down on our PDD. What is important to highlight here is that the growth in this internal credit desk, as FogaÃ§a said, obviously brought this increase in our allowance for doubtful credit, or what we call PDD. So it will increase less from this point on. And it will become more stable for these accounts. For the Fourth Quarter, we had additional impacts because of the allowance for doubtful accounts being delayed in payment. But part of it has been recovered now in this First Quarter.

Regarding our internal credit desk results, we have to mention that this is a total incremental sale because we are the final approval system in the credit line. In this First Quarter, we produced, that is we had BRL 100 million in sales to individuals. And this generated a net financial result of variable expenses cost of the desk itself and financial costs representing BRL 6 million. Meaning this is an operation that when you run the numbers, everything get generated was positive for the group.

The next slide consolidates our EBITDA numbers. We've reached BRL 203 million in the First Quarter, a growth of 15.1% in comparison to the First Quarter of 2018. It grew 30 bps in comparison to last year. And as was mentioned by FogaÃ§a earlier, in this quarter the company recognized an extraordinary expense due to the cancellation of flights that would be done by Avianca representing BRL 10.2 million. And this refers to reimbursements and rebookings in April, including the period up to May 7, 2019, when the auction should have took place. For demonstration dates, this item treated as extraordinary and its effects were normalized in the results lines. That is expense, EBITDA and net profit.

The next slide showing net income. It grew by 17.5%, reaching BRL 108 million in this quarter.

We now move up to Slide 19, presenting figures for Argentina. Total bookings in Argentina, including Biblos and Ola TransatlÃ¡ntica had a decrease of 31% in the First Quarter in BRL when compared to the same period last year. And obviously, this had a major impact from the macroeconomic situation in Argentina since mid-last year. It's worth reminding you that despite this drop, we gained market share because both operations dropped less than the Argentinian tourism market, where we are already the second biggest player. Despite this reduction in 22.1% in the net revenue, the take rate grew by 90 bps and EBITDA is positive. Although we still haven't captured the synergy between both companies and from these 2 companies and Brazil, which have been completely mapped and we've started to capture them. Although there was a reduction in sales, our losses in the last line had a slight improvement compared to last year. So we believe the market will recover. We know that these are cycles that Argentina goes through. And we know that they have a high potential for the next 2 to three years. And that's why our strategy is to consolidate the local market so that from this platform, we can expand in Latin America. And we need to be ready to do this in the local market itself.

The next slide has consolidated results for CVC Corp. This shows Brazil in light blue and Corp, that is consolidated with Argentina, in dark blue. So bookings in Brazil grew by nearly 14%, which is very similar to what we had in the Fourth Quarter of 2018. When we include Argentinian operations, we see that bookings grew by nearly 12%, still a double-digit growth. Net revenue grew by 14.4%, up to BRL 440 million in the First Quarter. And if you include Argentina, then our net revenue was BRL 468 million with an 11.3% pro forma growth. Normalized EBITDA adjusted with the extraordinary effect from Avianca and removing bank slip costs grew by 15.1% in the Brazilian operations and 15.2% when we include Argentina. And net income grew by nearly 20% when we consider Argentina.

Finally, it's important to talk a bit about working capital, cash flow and indebtedness. Here we have many details and the idea is to share them with you to make it very clear to the entire market. So I think the first information to highlight here is that we generated in the First Quarter a cash net revenue of BRL 149 million, 10% higher than last year. As you know the First Quarter usually consumes cash because of the seasonality and the fluctuation in our working capital, because this includes payments that we have to make during the high season to our partners. Even despite that, it was better than the First Quarter 2018 by BRL 88 million, as you can see in the table.

The company's net working capital. And we have to highlight here that we're using this concept for assets and liabilities, certainly assets and liability, which I think is how the market does this calculation, had an improvement of BRL 74.5 million when compared to the results of the variation to the same quarter 2018. So meaning, in this quarter, we invested BRL 296 million in working capital and last year, it was BRL 371 million. And this is even smaller than the 2016, 2017 cycle. So two years ago, the company invested BRL 371 million. And as a reminder, the company is now at least 50% larger than it was in the '16, '17 cycle.

I think we've spoken to many of you. But it's important to highlight during this call that working capital became a goal for all of our business unit directors as well as for the directors of CVC Corp. And we already have several initiatives mapped which will have better captures starting in the second half of the year.

Looking at the right-hand side, we have here a breakdown of our working capital into days. It's important to say that this growth of five days in the cash conversion cycle, which are the net working capital days in comparison to last year is due to one thing, which are contracts that we call CAE, C-A-E, because RexturAdvance and Submarino have much higher sales than the other business units. And although accounts receivable is stable, it did not come accompanied by a same reduction for these 2 business units, which have remained stable throughout this period. And this is due to the change in the business model that these airlines started to have, they started prioritizing credit cards. And as was mentioned, with the introduction of this modality with RexturAdvance and Submarino Viagens, our working capital will be -- will recover from this effect. And the next slide already shows that it has been measured to be BRL 150 million. That's basically the balance we have today from these operations. So when this capital returns, we will benefit from this 4-day phenomenon, which basically means that we will be at the same level we were in 2018 and close to the level we were in 2017. It's also important to say that this operation, despite consuming working capital, had net results, that is incremental net income of BRL 8 million in comparison to the First Quarter of 2018, only in this quarter.

So to conclude this part of the call, we have to discuss indebtedness. Our net debt with M&A reached BRL 1.7 billion, a leverage of 2.23x, which is slightly higher than last year. As a reminder, this was a peak of the cycle. The next -- in the last 12 months concluding in

March 31, our ROIC for operations in Brazil were 20.1%. And finally, we finished the capture of BRL 708.7 million in debentures, which extended our debt duration from 1.3 years to 2.6 years. And as we doubled this with a minimal increase in the average cost of debt from 108% to 109% of the CDI. And this will address all of our debts for 2019.

So now we can start our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Mr. Luiz Guanais from BTG Pactual has a question.

Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

I have 2 questions. The first is of your working capital dynamic. I think you made it very clear how that's going to work in the First Quarter. And I know that this was also affected by the change in business model that CVC has gotten into as you grow in other verticals. But do you already see the attach cycle becoming more stable or improving?

And my second question is regarding growth. We saw overall a reduction in retail in March and in April. Economic indicators are also showing that there is a slowdown from this activity. So what was that like for you at the end of March and starting April regarding sales for leisure and corporate cards?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, Luiz. I think the dynamic has been exactly like that. For the second and the Third Quarter, we already expect and we already see a gradual improvement, not only because of the effect I mentioned and the changes and the concluded negotiations model with airlines but also because of our own business dynamics. So the trend definitely is to return our invested capital and even to generate more cash in the next 2 quarters. Next question will be answered by FogaÃ§a.

A - Luiz Fernando FogaÃ§a

Luiz, yes, regarding the market dynamics, we see something similar to what you said. In March, Carnival ended up extending -- being extended. And that reflected in the economy. Consumers are still regaining their trust. Dollar exchange rate is also creating an impact. But this is just a part of our daily work. We've been working with airlines and other travel operators with several promotions. And this has obviously helped to recover our sales in leisure. In corporate, of course, it's a little bit different with a reduction in offers for some destinations, for example, the United States, which have a higher average ticket. And as prices for flights increase, then Rextur and other companies can capture these benefits directly. And obviously, our flexibility with prices in the business sector is much lower. So on one side, on leisure, you have a short-term effect and with corporate travel, this is different. So with leisure, we see behavior of the exchange rate becoming more stable. And of course, that helps. And with corporate, that's the good side of being present in the corporate world. We're now a company, as we said, that works on tourism as a whole, not only in corporate or not only with personal trips. So as you can see, we have different groups in different segments. But overall, we presented a very good level of growth for the entire company.

Operator

Mr. (Benitos Figurito) from ItaÃº has a question.

Q - Marco Calvi {BIO 19854632 <GO>}

This is Marco actually. I have 2 questions from our side here. First, regarding the Avianca issue, we'd just like to understand if this BRL 10.2 million that you have this quarter are related to the costs in rebooking customers and also refunding them. And regarding the BRL 100 million that are still open with Avianca, I know that it's difficult because there were some events that are not in your hands. But what's your predicted scenario? What do you think the company will do regarding those BRL 100 million?

And finally, regarding the sale of international packages at brick-and-mortar stores or any products that are exposed to the exchange rate. How is that done in brick-and-mortar stores? For example, the growth we saw in brick-and-mortar stores, was that a consequence of the exchange rate?

A - Luiz Fernando FogaÃ§a

Marco, starting with Avianca, this BRL 10 million were results in April and in the first eight days of May. None of this took place in March because obviously, we -- as we highlighted in the release, up until the Easter holidays in mid-April, although some international flights had already been canceled, although some aircraft had been removed from the company, we worked very closely with our partners, with all of the tourism industry. Our service teams at airports were very helpful. And that's also the advantage that CVC has in comparison to the rest of the market. We have staff at all airports providing 24-hour assistance every day, seven days a week. So we had over 3,000 passengers embarking per day from Avianca. We managed to do this in a very efficient way, I think. Obviously, there was a scenario that we knew until the start of this week, which would be the auction on March 7 (sic) (May 7). And obviously after the auction, there was a written commitment to the passengers that would still embark or had bought flights in Avianca. And this had been put into the numbers with the rest of the industry. So now we're still waiting. We still need to have a final decision to understand if the auction take place will or not. And in parallel, we're working here with the industry, with our partners to already have some conversations for next week so that we can begin a proactive process of rebooking these passengers into other flights. The big 3 airlines always have some space available. And as they've done in April. And I think that in other situations in the past when this happened with Varig or Transbrasil, the entire industry tries to minimize the impact to their consumers and to the industry as a whole. Obviously, when we say there is a drastic reduction in a short amount of time, Avianca lost nearly 17 flights on the Monday right after the holiday. So our ability to react to this big change in such a short amount of time is, of course, much smaller. If we were to look ahead in the next 12 months, we have BRL 100 million. So that's a more diluted volume. We are already working to have new flights and other destinations that are no longer receiving Avianca flights. So this will be a daily effort.

And here we're focusing to minimize impact on our consumers and also to reduce any potential cost that we may have in this process. But right now, it's hard to say what the impact will be. First, because there's still a pending decision regarding the auction; and secondly, because as I said, the entire industry needs to mobilize itself to reduce the impacts.

Oh. And we also have to answer a final question. Actually, it's hard to say what is the impact to the exchange rate. We can obviously see a reduction in the growth of international travel in March and early April. For international travel to the U.S. as well, we also had a reduction of around 23% at the offer. And obviously, as the offer is reduced, the average ticket is increased and that becomes a bigger issue. But it's a dynamic market. Companies are already adjusting with promotions, repositioning their prices. For Europe, for example, we see it has been growing by 30% to 40%. And to the U.S., there's a slight decrease because of this reduced offer and increased average ticket. For leisure travel in domestic destinations, there is a short-term impact. If you have 200 flights a day in Brazil from Avianca and that is removed, of course the average ticket for short vacations will go up until the industry recomposes that offer. And that will, of course, have a higher impact on leisure travel. But again, this is something that has been seen that has been dealt with by the market. Because of course, people want to travel. And with personal travel, of course, passengers are a bit more sensitive to the average ticket.

Operator

We have a question from JPMorgan.

Q - Unidentified Participant

I'd just like to hear a bit about the take rate in Brazil and Argentina. If you can tell us a bit about how that works in Brazil.

And in Argentina, we saw that the take rate improved. So what's your goal in that operation with regard to take rate? How far do you think it can get?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you for your question. The take rate dynamic in our business here in Brazil was absolutely stable in comparison to last year except for (Submarino) as we mentioned. That's a change in how we account for things. And that has an impact that, as I said, was already addressed. Except for that, for international and domestic product in U.S., we didn't have any changes. The 25 bps effect that you saw was exclusively because of the mix in units that have an intrinsical take rate that is lower than leisure. That's basically it.

Argentina's take rate, when you look at the business, if you imagine that these 2 companies are a mix of Submarino Viagens with Visual, that -- I think that's the best description. That's how we can understand these businesses here in Brazil. As you know, the take rate is much lower than what we see here. You can't extrapolate and say that in Argentina, we can reach the same level we have in Brazil because the market dynamics are completely different. And in fact, they price things and sell things in a completely different way. But we identified synergies which were important in that market and they will take place now throughout 2019.

A - Luiz Fernando FogaÃ§a

Just to add to what Leopoldo said, there are some systemic matters that don't allow us to recapture a business model that was already existing in Brazil and in Argentina itself. And that have been mapped and addressed. And in the future, we see some improvement in Argentinian margins and the 2 operations we have there today. .

So first we talked to our partners in Argentina. Many of them are the same that we have in Brazil and the rest of Latin America. And there's a possibility to increase the number of passengers and the number of bookings. And there's a commercial offset and that already is well aligned. We hope that this will happen until the end of the year.

Operator

(Operator Instructions) Mr. Ruben Couto from Santander Bank has a question.

Q - Ruben Couto {BIO 20636571 <GO>}

Going back to that point you started the presentation with, you mentioned that there was an initiative in becoming the first approver of credit. Can you tell us a bit about how that happened and the first tests you made and how the portfolio is going? We just want to know what we can expect from now on. For example, what are your default levels now in comparison to the rest of your history? Can you just give us some details on that?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Ruben, thank you for your questions. Unfortunately, we cannot give you details on the default levels. But when you compare it to similar portfolios. So how it has worked as the main approver and how it works before. If you look now, the margins are a bit higher. But it's still insufficient to deteriorate our P&L for these incremental sales. So it's a bit higher as was expected because of our macroeconomic situation and the retail market overall. And we are monitoring. But it's true. If you were to compare it with 2018, the same portfolio with 2017, it was also slightly higher in defaults. Of course, this portfolio tests are to see what we call (foreign language) as the first approver is lower. We can't disclose these numbers either. But they would be half of the losses that the last portfolio would have. So I think that's what I can tell you about defaults.

A - Luiz Fernando FogaÃ§a

Just to add to that, our goal is not to be a financial institution. It's not to provide that credit service or to have a relevant portfolio. But at about 5, four years ago, we also had that -- in that level of approval that is healthy in order to give us a better risk, of defaults and so on. And we lost that because in most stores, the first approver was the institution itself. But now it was only to have that visibility and have the information and to be able to have the feel of the market. And we want to be able to see this dynamically just as we have in the last two years as third approvers. Of course we have a higher risk. But we always try to be responsible. And we do a daily analysis of how the portfolio is performing.

Operator

(Operator Instructions)

(Statements in English on this transcript were spoken by an interpreter present on the live call.)