Q2 2014 Earnings Call

Company Participants

- Alexandre Vasconcellos, CIO
- Belmiro Gomes, Wholesale Business Director and Managing Director of Assai Chain
- Christophe Hidalgo, Financial Vice Executive President
- Daniela Sabbag, Investor Relations Officer
- German Quiroga, CEO of Nova Pontocom Comercio Eletronico S.A.
- Jose Marcelo, CFO of Assai
- Libano Miranda Barroso, Vice Chief Strategic Development Officer
- Ronaldo Iabrudi, CEO
- Unidentified Speaker, Company Representative

Other Participants

- Alan Cardoso, Analyst
- Andrea Teixeira, Analyst
- Gustavo Piras Oliveira, Analyst
- Irma Sgarz, Analyst
- Ricardo Boiati, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing-by. Now we would like to give the floor to Ms. Daniela Sabbag, Investor Relations Officer of the Company.

Daniela Sabbag {BIO 22210225 <GO>}

Good morning, everyone. And we apologize for the technology problem that we had here. I would like to mention those who are present, Ronaldo Iabrudi, CEO of the Company; Christophe, CFO; Libano Barroso from Via Varejo; Fernando Zencoper[ph], CFO of Via Varejo; Jose Marcelo CFO of Assai; Alexandre Vasconcellos. And connected with us we have Belmiro and Quiroga who are not physically present here in the room but we will be trying to connect them via conference call. Now, I would like to give the floor to Ronaldo for his initial remarks.

Ronaldo Iabrudi {BIO 5151863 <GO>}

Good morning. And once again we apologize for the technical problem. I would like to thank you very much for participating in this call, especially our investors and the people who organized the event. And I would like to congratulate those who are sitting around the table and also those are not present here around the table but will be participating via call for the results delivered during the quarter and during the half year.

Our sales grew by 13% and our net income was twice this growth, that is to say 26%. I believe that these figures are the one that give color to the work carried out by this team that is sitting around this table in spite of a consumption scenario that we see that is more complex and more cautious. At the same time, the result delivered during the quarter was rather positive, very much in line mainly when we consider the margin situation in our business. And the only exception to that was Assai. And it was an exception only because of the growth phase of Assai. Had Assai not grown as fast as it grew, there would be also a positive expansion in the margins. We continue to follow the strategy that we mentioned to you during the last meeting that we had with you. And we have been continuously improving our results in a sustainable fashion and we have been focusing on three priorities.

We usually say that if you have more than three priorities you have no priority whatsoever. So operating efficiency, optimization of CapEx and working capital and organic growth, these are our three. In terms of operating efficiency, we have been continuing with the initiatives implemented in the last quarter. And expenses continued to evolve in the direction that we want, that is to say downward, which means a reduction in expenses with a higher result in terms of discipline and better results in terms of focus on our business as well and also streamlining our activities which is very important. And we believe that the simpler we can be, more agile we will be. And in our business, that is to say retail timing and agility and speed are fundamental. So operating efficiency, which is a priority, we have been able to deliver as we have already been talking about. And another fundamental point is CapEx optimization and also working capital optimization.

I would like to say that the Company talked about working capital and adequate CapEx vis-a-vis revenues. And what happened is that we are investing this year, as we have already said, approximately the same amount that we had projected for last year but with more square meters, which means that we are making very major endeavors and Alexandre is here and each business owner is here as well. For each one of the investments, for each one of the banner we have been making our necessary investments with a reduction in -- by square meter but always keeping the concept and the quality of the stores and also of the investments.

And another point, working capital, we also saw major evolutions in working capital and you saw that there was a 3-day reduction in our inventory. And then, as we said, we talk a lot about working capital when we talk about revenues. And this is a total priority on the part of the Company. And the last point or one last priority is organic growth.

We believe that when the economy is really moving sideways. So to say, we see opportunities to increase our footprint and we're working very hard in this direction. And it is a decision made by the Company, that is to say to increase footprint by increasing the number of stores opened. And also in Via Varejo we are working with the opening of a higher number of stores than we had estimated in our budget. And Assai is one example, we have already opened five new Assais this year. And we have an even more daring plan to open other new units of Assai next year.

I wanted to say a few words about each one of the businesses. But as we had this initial technical problem that delayed our conference call, I think it would be more productive to focus on Christophe and he will be talking about the balance sheet and the results of the Company. Then I will come back and I will make some closing remarks and talk about the outlook and I think we can recover the time that we wasted with the technical problem.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you, Ronaldo. Good morning, everyone. And I would like to start our presentation with a highlight of the quarter. Page number 2. Net revenue growing by 13.4% and same-store concept growth 9.5% increase, mainly driven by the good performance of the food business that I would like to highlight, the good performance of Assai and also positive performance on the part of Nova Pontocom, in line with what Ronaldo said, organic growth has been a top priority for us.

We opened 116 stores in the last 12 months, in the quarter 225 additional selling units. And maintaining our commitment with discipline in SG&A expenses we were able to deliver a reduction of SG&A expenses or 0.7percentage point compared to our net revenues. And this reduction can be explained mainly by the efficiency gains achieved by Via Varejo and the continuity of the discipline plan regarding our spending and the streamlining of the Multivarejo processes. And the ongoing discipline in the management of the resources. BRL1.155 billion adjusted EBITDA advances, or 21.1% or a margin, EBITDA margin -- adjusted EBITDA margin reaches 7.6%, 0.5percentage point higher than the previous period. Adjusted net income with a good performance, BRL407 million, adjusted net income, an increase of 26.3% and adjusted net margins increased by 0.3percentage points reaching 2.7% of our sales.

Now, let's go to the next slide with the main indicators of the first half of the year and of the Second Quarter. Sales, we have already talked, 3.5% (sic; see press release, "13.4%") growth, to the -- growth, 9.5% same store sales. In the half year, growth was 12.6% and sales same store growth continued to be dynamic with 8.5% increase in the first six months.

Adjusted EBITDA, BRL1.15 billion in the quarter, BRL2.23 billion in the half year. Homogenous growth for the first half and the Second Quarter. And 22% approximately. And adjusted net margin, 26.3% and 26.1%. Adjusted net income reached BRL407 million, 26% higher than last year. And BRL770 million in the first six months of the year. And you can see the growth was 26% as well.

Our financial discipline is also translated in the level of indebtedness of the Company and the deleveraging during the period was very significant as the net debt went from BRL4.17 billion to BRL3.07 billion. A deleveraging -- relative deleveraging of 1.16 times to 0.69 time net debt/EBIDTA ratio if we consider Q2 2013 and Q2 2014. Consolidated net financial expenses behaved as expected, in spite of having the reference rate, which is the CDI going up by 40%. We were able to keep our consolidated net financial expenses, as you can see, growing by 20% and representing 2.4% of net sales.

And on the next slide, another highlight is the ongoing improvement in working capital vis-a-vis Q2 2013. We can see that the gap between inventories and suppliers had an improvement of 3.5 days, approximately BRL380 million in cash reduction and working capital. And this improvement has to do mainly with improvement in inventory optimization in Via Varejo with a significant reduction and the positive impact on the working capital.

Now, going to the next slide, we talk about our organic growth which is another top priority on the part of the Group. And we intend to accelerate and keep a high growth pace. And we have here the Assai, 19 new stores, 15 Minimercado, one Assai, one Pao De Acucar, 1 drug store and the first unit of Minuto Pao de Acucar. Almost, 1,700,000 square meters of selling area.

Six units of Casas Bahia. As you can see here in Via Varejo we opened six Casas Bahia stores with 970 stores at the end of the quarter and 1,070,000 square meters of selling area of Via Varejo.

Now, let's go to the next slide. And here we have the main financial performance indicators for the food area, Multivarejo plus Assai. After mentioning the figures -- well, net sales, BRL8.4 billion in the quarter, BRL16.7 billion in the half year, growth of 14.5% in Q2 and 13% for the period.

Adjusted EBITDA, we also see a positive behavior of adjusted EBITDA, going from 20% in Q2, BRL615 million. And slightly lower than BRL1.2 billion for the 6 first months of activity with a margin of 7.1% adjusted EBITDA margin for the half year. Adjusted net income, also accelerating growth, BRL224 million in Q2, 31% growth. And in the half year, BRL425 million in adjusted net income, that is to say a 16% growth year on year with 2.5% adjusted net margin.

Now, I would like to give the floor to Ivankobic[ph] representing Multivarejo and afterwards Diaportella[ph].

Unidentified Speaker

As mentioned, we continue with our expansion strategy. We opened Minimercado Extra plus Pao de Acucar. We maintained our strategy to gain market share sustained by expense reduction in the First Quarter. In this quarter we achieved an EBITDA of BRL1,549 billion (sic; see slide six "BRL549 million"), 8.5% margin, 0.6percentage point, growth of 18.2% compared to 2013.

We maintain our strategy to offer same price, best prices, best services to our clients with the best sales conditions, maintaining our profitability.

I will turn the floor to Belmiro. Actually to Jose Marcelo to talk about Assai. Thank you.

Jose Marcelo {BIO 17958890 <GO>}

Thank you. Good morning. As previously mentioned by Christophe and Ronaldo, Assai posted growth in the Second Quarter. And we can see here on the slide the growth. This was sustained by a solid same store performance and organic expansion in strategic regions such as the Northeast.

Our EBITDA was BRL66 million, up 35.4%, in keeping with the goals of our net revenue. Even with investments in price and higher expenses of the strong expansion plan as well as the time of maturation of new stores, we were able to maintain our EBITDA in line.

As you can see, Via Varejo and Nova Pontocom, in other words, the non-food business did quite well. Sales performance has been good, BRL6.8 billion in the Second Quarter, 12% increase in total vis-a-vis the previous period. We see homogeneous the behavior also for the half year 12.3% increase. Net -- gross sales a little bit over BRL13 billion. Profitability, as expressed by the adjusted EBITDA also shows a good trend in keeping with our expectations. BRL540 million was the adjusted EBITDA of the Second Quarter, 7.9% adjusted EBITDA margin growth in half year was 35% with an EBITDA of BRL1.050 billion, 7.7% adjusted EBITDA margin. Adjusted net income growing 21% in the Second Quarter 2014 to BRL183 million, BRL345 million in the half year, accounting for 2.5% of sales.

Libano Miranda Barroso {BIO 4670536 <GO>}

Now, we will hear some comments about the activities of the Via Varejo. This is Libano. In the Second Quarter 2014 we have several highlights. We have 8% increase in our net revenue in this scheme because we have a same-store sales growth of 6.8%. In this period, in the last 12 months, we opened 45 stores. And in this quarter six stores. and eight opened in the First Quarter of 2014. Gross margin was 31.4%, we maintained our gross margin equivalent to the Second Quarter of 2013 with increase in the gross profit of 8%. This was possible in a moment where we had intense sales of items that carry a low margin, like TV sets. But we have our economy of scale.

Our interests were in line with our suppliers and so we were able to grow, maintaining our growth margin. Our adjusted EBITDA margin of 9.1%, 21% increase, up a 100 basis points over the Second Quarter 2013 due to improvement of operational efficiencies which has generated gains in logistics operations, gains in administration expenses, we always try to manage our expense matrix to bring us ongoing improvement.

Adjusted net margin growing 27%, up 50 basis points from Second Quarter 2013, reflecting the impact of financial discipline, a negative need to finance our working capital. In other words, we were able to have a positive gap between inventories and suppliers. And we will continue to grow. We intend to open about 60 stores this year with discipline and profitability.

Now, we will give the floor to Quiroga to make his comments about Nova Pontocom.

German Quiroga {BIO 17954249 <GO>}

Good morning. I am kind of limited because I am speaking from a remote location. We had this quarter with excellent growth in terms of sales, above 35% growth year on year and 45% growth in an indicator that includes our marketplace sales. We had increase in our purchasing conversion rate as well as improvement of -- of improvement -- a bigger share of market place in our sales mix. We improved our gross margin and our EBITDA. Our EBITDA margin was increased 0.7percentage point overall, in other words considering increased sales and increased margin, we practically doubled our EBITDA in terms of absolute values.

The margin increase comes from better margins, better prices, better negotiations with suppliers and I am here to say that we are enjoying the best moment ever and we would like to thank our suppliers for all the support. And finally, in a nutshell, we had a quarter with a strong sales volume, market share gain, improved margin, improved EBITDA. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Gustavo Piras Oliveira, UBS.

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

I would like to congratulate the Company on the good results. My question is regarding operating efficiency, particularly in the food business. I would like to know where do you believe we are, what are the primary initiatives that still need to be implemented in the next say two years that could still lead to even greater growth of the margins. And if possible, I would like you to elaborate on what kind of target margins you are working with for the food retail business. Thank you very much.

A - Unidentified Speaker

Gustavo, thank you for the questions. In the first place, we are enjoying a strong growth process and a daring one which brings an improvement in operating efficiency when we have higher volume and we expect to open even more stores. We naturally dilute our expenses. And we have a number of initiatives being implemented in the Company aiming to enjoying more synergies among the businesses and aiming to simplify processes and to reduce costs as well, never losing sight of the quality of our customer service.

So what I can tell you is that we will continue to work and to look for operating efficiency. And we will enjoy natural gains because of higher sales volumes and because of our internal initiatives as we have seen in the first half of the year.

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

Do you believe that the main gains will come from logistics or from the stores, the distribution centers, perhaps something linked to the systems? Could you give us a little bit more detail?

A - Unidentified Speaker

Well in a company this big you have gains coming from everywhere, logistics, IT, sales, operating efficiency, gains coming from the interaction between media communications with our commercial area, sales activation initiatives. So for example, shrink rate[ph] is something that we are working a lot on and we assure that this is going to improve stock-out, another point that we are working on. But these are all very complex, long-term initiatives. And they involve the whole of the organization. It's very difficult for me to give you a guidance of what the gains will be. But as you see with our results and with the trends that you have followed in the recent quarters, we have been performing positively, always seeking more efficiency.

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

Thank you very much.

Operator

Ricardo Boiati, Bradesco.

Q - Ricardo Boiati {BIO 16528742 <GO>}

My question is related to consumer behavior at this point. Ronaldo, you said in the beginning that consumers tend to be more cautious. This Company operates in different retail segments targeting different target audiences. So I believe you have good analytics. Can you identify changes in the habits of consumers?

Do you think that they have less income, less disposable income? Are they trying to save money? Take a Pao de Acucar typical store; do you think that customers are perhaps not going to Pao de Acucar stores and moving to Assai or Extra? Do you see any type of changes like this?

My second question has to do with a strategy of more competitive prices. This has been going on for a while. I would like to know, can you see a cut apart in sales? Is this showing in the Company's results? Or is this a benefit that will be taking longer to be realized that perhaps will be seen later but there will be sales more in the long term and for a longer period of time.

A - Unidentified Speaker

Ricardo, competitiveness for us is a strategy that has come to stay. We strongly believe that customers are smart. They know how to measure and compare prices all the time. So we're sparing no efforts to increase our efficiency so that we can keep our customers and ensure price competitiveness in cash and carry, in Minimercados, the neighborhood stores, in the premium stores. And so this is a policy of the Company.

Now, what we need to have is the internal capability and the ability to negotiate with our suppliers so that we can maintain and deliver our margins, commercial margins and the EBITDA margins. That's in terms of price competitiveness.

Now, as for the consumption scenario, I can tell you that we are not too excited and optimistic but we are not too pessimistic either. I believe that the economy is moving, as we have seen, in terms of the output. But I guess that the fact that we have multi-banners and that we give customers options to buy online or to buy in a neighborhood store, or if they want to shop a lot they can go to Assai or to a hypermarket, that puts it in a differentiated position.

To be very clear, we feel more growth in some banners than in others. Minimercado, for example, Pao de Acucar, cash and carry are growing more than, for example, hypermarkets and supermarkets. Well these are things that we follow constantly and we believe that this has to do with the purchasing power of the customers.

Let me give you an example. We are opening a Minuto Pao de Acucar and we are assessing now. Some stores were built years ago, in a region that had a certain[ph] purchasing power. And the purchasing power has practically doubled in that region. So we are considering turning a hypermarket into a Pao de Acucar store because this is what that specific target audience demands and expects. So our team is keeping our ears and eyes open to the needs, the options and the way customers shop so that we can adapt to the changing interests and demands.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Okay. Thank you very much.

Operator

Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have a few questions. The first one has to do with selling expenses in food, especially Multivarejo net of Assai. It seems to me that selling expenses net of any effect of reclassification of expenses or revenues from the galleries, it seems to me that it went up on an year-on-year basis. So I would like to know whether this has to do with sponsorship by Extra of the World Cup. And is this a strategy that we should consider for the future as well?

The efficiencies that you are achieving in SG&A, is this being reinvested, the savings that you are achieving in your selling? And what about your selling expenses, was it like a one-off event in the Second Quarter?

And my second question has to do with Pao de Acucar Minuto, the new format. Could you give us some more details about returns, potential margins, growth potential of this format, the Minuto Pao de Acucar? And is there room to convert any of the other formats into a Minuto Pao de Acucar? I don't believe so. But anyway could you please let me know?

A - Unidentified Speaker

About selling expenses, 10% and not 14% as we see here. 10% increase and there is some inflationary pressure on selling expenses.

Regarding Minuto, Ronaldo will say a few words.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Okay, regarding Minuto Pao de Acucar, it's what I said before, we have Minimercados, minimarkets in regions. And based on what we see from the client, that is, say, the demand on the part of the client or the type of client we see that there will be an opportunity to switch, still within this year, switch or transform, maybe some mini market into Minuto Pao de Acucar but we are waiting for the results of a survey that is still being made with clients and but we are paying attention to that and we will be delivering the best format for that specific type of client that goes to that specific kind of store.

So I would say, yes, still before the end of the year we could expect a few other Minuto stores according to the clients that are identified.

Q - Irma Sgarz {BIO 15190838 <GO>}

I would like to better understand the economics of the Minuto Pao de Acucar and the capital that you have invested per square meter on average and what about the returns that you expect coming from Minuto.

A - Unidentified Speaker

Well I do understand that you would like us to answer these questions. However, we only have one store that has been operating for less than 40 days. So I would say that it's a little bit too soon to say anything. We like to work with a pilot first and we like to have an analysis that may allow us statistically to make a more precise projection.

However, what I can tell you is that it is operating according to the business plan that we have designed. However, it is a little bit too early to give you any additional information or guidance that may be statistically relevant.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you very much, thank you.

Operator

Andrea Teixeira, JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank youï¿½for the question. Congratulations for the results. You talked about margins in general. I think the margins were higher than expected in the food business. So could you give us an idea, you have already completed one year after this investment. And do you think that this margin or this gain will be recurrent? And how do you see the situation for the second half of the year?

A - Unidentified Speaker

The margin should remain stable. We do not believe we will have additional increases. We are working on -- to increase competitiveness.

Q - Andrea Teixeira {BIO 1941397 <GO>}

What about the EBITDA margin? Because you were talking about the gross margin as you have new formats and Assai recovery margin, would there be room for any operating leverage, additional operating leverage still within this year?

A - Christophe Hidalgo {BIO 17982648 <GO>}

Andrea. Good morning, this is Christophe. Of course, there is always room for margin improvement at the levels of the EBITDA margin that we see. And we intend to increase competitiveness by means of increasing our efficiency and with a better management of our resources. And of course there is still room for improvement there with an ongoing search for improvement on our part. And we will (technical difficulty) do what we have to do, continue to do homework.

Assai is a little bit different. The reading may be -- is a little bit hindered maybe, regarding the relative weight, impact in growth. And now that we have already confirmed that the order stores are growing as expected by us. As we said in some opportunities in the past this confirms that they add an additional return to the Group as a whole like the returns that we have from the other formats. And this is the margin scenario that we see today. Or in other words, we could expect a significant improvement of the Assai margins.

Q - Andrea Teixeira {BIO 1941397 <GO>}

I guess that there was a paradigm shift over towards the opening of stores. You have opened more stores recently than historically. So if possible could you elaborate on how you can get this with CapEx, perhaps CapEx can be better used, or you could reduce CapEx per store. Could we use that guidance of 6% of CapEx per store opened or perhaps something higher for 2014? How do you see this as an opportunity to increase or to grow now with these well-tested new formats and banners?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

This is Ronaldo speaking. We are working strongly on standardization.

Q - Andrea Teixeira {BIO 1941397 <GO>}

I don't know Ronaldo. But I can't hear you very well. I don't know if the others can hear well. But I definitely cannot.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

What I am saying is that we are working strongly in standardization. And we are defining some standards. And when you have that, for example, we don't think that we need to have one store different from the next. I guess that our stores can follow a certain pattern and be standardized in the supplies to hypermarkets, supermarkets, Pao De Acucar, Casas Bahia, neighborhood stores, Minimercado. With that you will remember we approved an investment close to BRL2 billion. And we believe that we will be able to do what we proposed to do in terms of store opening. And I guess that we are going to be able to spend less than the BRL2 billion exactly because of this standardization effort and having greater financial discipline with our investments.

Q - Andrea Teixeira {BIO 1941397 <GO>}

So thanks, that's all I wanted to confirm because of our prior conversations. Thank you very much, congratulations.

Operator

Alan Cardoso, Safra Bank.

Q - Alan Cardoso {BIO 15933677 <GO>}

For quite a while we have seen Assai with very good sales performance with a better trend than the efforts of the Company. On the other hand because of the data we could collect, hypermarkets are performing below the other banners. Does it make sense to mention that the Company might go through an accelerated conversion process converting hypermarkets into Assai or would this destroy value?

My second question is, when we look at the consolidated EBITDA margin with Assai, given the accelerated growth of the Company it remains very much pressured. When we look at the older Assai stores over the new format that have achieved the payoff curve, what about the margin level, is it about 5% or is it reaching 6%? So we would like to know what would be the Assai margin if everything, if all of the stores were completely mature.

A - Unidentified Speaker

Hello, Alan, are you still there?

Q - Alan Cardoso {BIO 15933677 <GO>}

Yes, I am here. I am still here.

A - Unidentified Speaker

Well let me try to answer the first question. If there would be a possibility of optimizing hypermarkets. You've raised the possibility of converting hypermarkets into Assai or cash and carry format. Well we think about converting supermarkets into Pao de Acucar stores because of a different purchasing power in given regions. We have been analyzing this. And we should probably go ahead with this conversion. For the hypermarket we have Alexandre here. And we are thinking of reducing the selling areas. We would have hypermarkets with much bigger stores than a typical hypermarket with 4,700 square meters of selling area.

And we are thinking about what we're calling commercial centers. With that we can optimize the asset. And more than that we are able to bring more customers to the stores because they go to the commercial centers and they also go to the hypermarket. So what we are designing and what we are going to do is optimize the hypermarket, reducing the selling area of the hypermarket and using the commercial centers.

As for Assai, we are in a growth process which, as Christophe has said, is quite strong. And the stores that are operating with a certain level of maturation have an EBITDA and a margin -- an EBITDA that we consider adequate. And which we approve for the opening of new stores. So Assai in our opinion, our strategy, is that it will continue to grow, will continue to expand to other states in the northeast. And defending our position in the region of Sao Paulo. So we will continue to grow strongly. And where we already have mature stores the EBITDA will be equal or a little better than what we included in our business plan.

Q - Alan Cardoso {BIO 15933677 <GO>}

Perfect, thank you very much.

A - Belmiro Gomes {BIO 18107864 <GO>}

This is Belmiro. And I would like to add to what Ronaldo mentioned. When we have a sales mix between mature stores and the stores opened, obviously we have higher margins in the old stores and the new stores operate with lower margins. But the Assai business, the cash and carry business is characterized by offering low prices with obviously lower margins. The EBITDA, when you analyze, it is not totally comparable with the B2C retail. There are no operating expenses in the cash and carry. We don't sell in installments and we have higher selling areas.

But in terms of the return on investment, it is in keeping with what was expected and we enjoyed 38% growth in this quarter, which points to a strong expansion. It put some pressure on the margins. But we have been able to recover that because our expenses in this quarter were lower than the same period of last year.

Q - Alan Cardoso {BIO 15933677 <GO>}

Thank you very much.

Operator

Segander Mesi, Sanberto Plural[ph].

Q - Unidentified Participant

Let's go back to Rio state and hypermarkets, et cetera. This a business that has started to emerge gradually in your market. So I would like to understand the potential that you see for this market. Do you have a plan already to open more space and could you share your strategy with us and how this contributes to your overall results and what will be the participation in the medium in the long run?

A - Alexandre Vasconcellos

Thank you for the question. This is Alexandre Vasconcellos Guilherme. This was a strategy, as Ronaldo said, to take advantage of the areas where we have a high influence where is a confirmed demand with a previous survey regarding desire for products and services on the part of clients. And so some of them evolving to this Conviva space, our installed base of gross leasable area is 19,000 square meters and we would like to grow around 20% per year, basically tapping into the installed base of our stores and organic growth.

We have two Convivas today, one Conviva in Rio de Janerio with Pao de Acucar banner and in Belo Horizonte with the XA Permercado[ph] banner. The performances are according to what we expect and slightly beyond the results in hypermarket because of a high inflow that the hypermarket already has. And we intend to open a third Conviva in Rio de Janeiro in Maracana, a hypermarket. And this will gradually consolidate our proposal to deliver convenient and neighborhood services to our clients. Thank you very much.

Operator

Tobias Stingelin, Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Rather bureaucratic, my question. But regarding SG&A for Multivarejo. It seemed to me that it had already been reclassified in the release but the answer is that 14% was not on a comparable basis and it was 10% instead of 14%. So which of these two figures should we consider?

A - Unidentified Speaker

10%. This is the figure that you should consider.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So last year you did not adjust that, is that correct?

A - Unidentified Speaker

Yes.

A - Daniela Sabbag {BIO 22210225 <GO>}

Today's conference call is closed. The Investor Relations Department of the Group will stay at your disposal for any questions that you might have. Thank you for participating and we wish you a very good afternoon.