

## Q3 2018 Earnings Call

### Company Participants

- Felipe Negrao, CFO
- Flavio Dias, CEO
- Maurizio de Franciscis, CDO
- Paulo Naliato, COO

### Other Participants

- Gustavo Oliveira, Analyst
- Joseph Giordano, Analyst
- Luiz Felipe, Analyst
- Richard Cathcart, Analyst
- Ruben Couto, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. Thank you very much for waiting. Welcome to Via Varejo conference call to discuss the results for the third quarter of 2018. This call is being broadcast via internet at our website, [www.viavarejo.com.br/ir](http://www.viavarejo.com.br/ir), where you'll also find the company's presentation. The slide selection will be managed by you. The replay will be available after the call is finished. The company's press release is also available at its IR website. The call is being recorded, and all participants will be in listen-only mode during the company's presentation. After Via Varejo's remarks are completed, there will be question-and-answer session when further instructions will be given (Operator Instructions).

Before proceeding, we should say that forward-looking statements made during the conference call regarding business perspective, projections and operating and the financial goals are based on the beliefs and assumptions of Via Varejo management and also on information currently available to the company.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they relate 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 could also

affect to the future results of Via Varejo and cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor to Mr. Flavio Dias, CEO of the company.

### **Flavio Dias** {BIO 18281132 <GO>}

Good afternoon, everyone, and thank you very much for participating on our conference call for the third quarter of 2018. Here with me, I have Paulo Naliato, our COO; Felipe Negrao, our CFO; Izabel Branco, our CHR enact; and for the first time with us on this call, Maurizio de Franciscis, our CDO, that has joined our team recently, just a few weeks ago. And he is taking care of IT, marketing, marketplace and e-commerce.

In this quarter, we have taken some crucial steps in the transformation phase of the company, and we had gained a market share in both channels, both in brick-and-mortar stores as well as on the online channel. But we have faced a difficult market and our other challenges that have affected our profitability in the period. With advancements in our profit development, integration and transformation of the company, a lot of them that materialized in the past months have brought in important changes to our operations, especially in our brick-and-mortar stores. When we implemented the Via+, it's important to say that we are coming to an end of a year now 2018, in which we have decided to integrate, replace or at least to reengineer a lot of the systems and the critical processes of the company.

In addition to being very confident about our strategy and also the new value proposition that comes with it, we are sure that the most structural part of the process, that is the most difficult one and very sensitive part of this process, is already behind in this year of 2018. Therefore, we can say, for sure, that we have paved the road on which we will be able to accelerate our operations in 2019. And despite of the important progress since, we know that this is a long journey and a lot of challenges will lie ahead. But it's important to say that in a way of turning this progress more tangible, I would like to share with you, and this is still very recent, but we already have a promising result coming from these first stages of the transformation.

Starting by Via+, that it had -- it's roll out to all the stores till the end of August. Today, we are already going over 70% of transactions that -- those are going through this new system, and we already have already benefits there. The conclusion time for sales that has reduced an average 60% versus (inaudible) our prior selling system. A variation -- a change in the performance of the heavy users of the Via+ versus the heavy users of (inaudible) that are still using that old system, there's clearly a performance difference of 30% higher in the CDP for Via+ and 20% more of services. And also, with some gain in the performance of sales and margin, lower than 5%. But that should increase, especially, as soon as we go forward with mobility, not only in the learning curve for the new system, but also with the functionality that come with the mobile system. that should be in the next week.

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We believe that by the end of the year, we will have all transactions already running in this new system. Via Unica, also is our sophisticated tool for data and allows us another level of customization in our immediate strategy and also CRM, and that has allowed us, for instance, in August to have an increase of 63% in EVVA sales, and basically, 70% increase in our ROI, in our activities. It's also important to talk about EVVA, our virtual assistant. It's integrated as an app. And it also contributes a lot for the improvements of the performance, especially of those that are getting more engaged with the app. We have our measurements of those that more or less engaged. And we see the 10% of our targets meeting, of the most engaged ones, and 20% more of average productivity. That is really important figures as well.

I should also comment, the launching of our new app, Casas Bahia, it was most expected. We did a soft launch of that app at the end of July. We worked throughout August so that we could fine tune the app. And in September, we had the first month with our whole base of customers using this new app. And, here, in September, we had 300% more of orders versus our best month in the year so far, with the app, which had been June. So we did have an important, significant lead there. And now in this first few weeks, we're just seeing the share of this app growing consistently. So as a challenge now, we should expedite the acquisition of new clients and customers that will download the app. We are working on that and we are very excited about this possibility.

Last week, we just launched also a sponsor-free use app with the same capabilities of Casas Bahia app. This is a native app, much lighter and it's using the same platform and it should bring the same type of benefit to the banner.

I also should highlight another important step we have taken regarding the future of the company in terms of means of payment. We have signed a new partnership and we have already disclosed it. A partnership with Airfox, it was incubated at Harvard Lab. And by this partnership, we will expedite the process of digitization of credit operation and we will have more productivity for our in-sales persons because the process will be automated. We have also gone forward with our digital portfolio and we opened accounts to new services, which is allowed by this partnership. Airfox is already a digital portfolio that is operating. And also, we had another partnership with GetNet to develop a seller's portal that will work as a white label platform for Via Varejo. And in addition to traditional tools they'll also offer bank products to all our sellers and all partners just by a one click. Very easy, very simple.

And to conclude, I should say that, just recently, we signed an agreement with Zurich. And after that agreement, now Via Varejo is concentrating most part of this insurance portfolio in the same company. And now we are starting to standardize the products and the offers from all the different channels, and that we will have a significant contributions to our omnichannel approach.

I end, here, my comments, now I'll turn the floor I to Felipe Negrao, our CFO, and he will be talking about the quarter's results.

**Felipe Negrao** {BIO 19434019 <GO>}

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Good afternoon, everyone. Thank you very much for being here with us. Let's start talking about the results of the third quarter of 2018 and business perspective. On slide number 5, in the third quarter of 2018, we had growth of the net consolidated revenue of 4.4%, reaching BRL6.4 billion. In brick-and-mortar stores, net revenue was up 5.2%. In the online channel, revenue was up in 1%.

We should remind you that over the quarter we did have important tools such as Via+ that have contributed positively to the future performance of the companies that are still in the process of maturation and learning.

On slide number 6, the invoiced GMV for 3P increased 19.5% and the performance of invoiced GMV for 1P have grown 11.6%. Click&Collect is -- still is showing important growth, reaching 31.3% in the main categories. Click&Collect is very strategic for Via Varejo, once it allows us to really have better customer service, lower logistics cost and also the possibility of having up-sell and cross-sell, both the product as well as for financial services, which is very important for our profitability.

We have around 7,000 points for pickup, 980 stores and 6,000 post office branches. On slide number 7, the competitive environment post-World Cup has contributed to a pressure in our results. In addition to that, lower approval rate for credit operations and lower efficiency in the selling of financial services has resulted in a reduction of the gross margin of the company, from 32.8% to 29.2%. We had important gains in productivity -- in expenses such as EVVA logistics. But we did have great investments in marketing, in the period as well as significantly increased the number of lawsuit settlements and increased - thanks to the legal factory projects. The greater expenses was marketing.

It's very important to increase sales of the company and also to support the download of the new app. And the legal settlements also impact in the short term, but they do bring value to the company in the long term. We still have several projects that aim increased efficiency of this company, without hurting customer service and without compromising the delivery of projects that are important for the future of the company. As a result of that, SG&A, as a percentage of the net revenue, went from 26.3% to 27.1%. Because of that, our adjusted EBITDA margins dropped from 6.9% to 2.5%.

On slide number 8, the net financial results, before adjustments, went from 3.9% to 3.2%. The company had a loss in series of BRL79 million. On slide number 9, the company maintains its sound financial position with a net cash of BRL1.6 billion.

I conclude here my comments and open for the Q&A session.

## Questions And Answers

### Operator

(Operator Instructions) Thiago Macruz from Itau BBA has a question.

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

Hello, good afternoon. My question is about what you announced this agreement with the Zurich. This is agreement that you have signed recently. I would like to have more information on that. How does this agreement happened and what were the financial issues? What you should be getting and when? And I think it would be nice to have more information on that, please.

## A - Felipe Negrao {BIO 19434019 <GO>}

Good afternoon, Macruz. This is Felipe. So let me explain and put this into context. We did have two contracts with Zurich, one was regarding extended warrants in brick-and-mortar stores, this was from 2014. And another one was covering all the other products with them, and this other contract was for 2016. So these were contracts in which the economy was under different perspectives. We had another agreement that was with Cnova and TWG regarding extended warranty on the online channel for products there, so another product. As Flavio said, now we have to integrate the activities of both companies and so it becomes difficult to separate what is an online and an offline sale. So we have different channels so it's difficult in the context of these contracts to determine this is an offline sale or this is an online sale. And that was also impacting the contracts we have -- we had and the goals meeting and also the profitability of the company. So we would meet the goal of one channel and that would have an impact for profitability.

And if I would sell via another channel, that would impact the other channel. And, also, because these contracts had been signed in the year different -- the targets and also the profitability was different for product, and both for Via Varejo as well as for the insurance company. So if I were to sell one product more than another, I would find the profitability impact for Via Varejo and for the insurance company. And actually the customer should choose that -- choose the channel in which is insurance, and that's where it all started. In February, we started a negotiation with insurance companies to try and unify everything to we have everything under the same umbrella, all the contracts under the same umbrella and all the products in a way that they are equivalent, that is a customer may choose products A or B, according to his supplier, and that will be better for our customers, for the company and for the insurance company. And so that's how we started.

So in this negotiation, we have a rebalancing of our goals, considering our current economic perspective. Also, we have an extension of this (inaudible). Three contracts are now are a single contract with Zurich, and so we have product A and product B, and it depends. Regardless of the channel, this is an insurance for the product. This was very good for the company and this was our main reason to unify the contracts. Because of that, there was a great improvement in our GPM for the company. So if we check the cash flow, our current contracts and this new contract is generating value for our shareholders, which is very important. Also, we see no difference that it's significant in our EBITDA for the next year. So if there is a positive impact, it's because our customers will be buying that and we'll be able to provide better service and these customer will be buying more. So, I believe, with this we'll have a positive impact in the financial results, because with these transactions, we will have a total of BRL830 million, and BRL715 million have already been advanced and the remaining part should be in by the beginning of next year, but probably by the end of the year, this should be settled. So I think that said, we'll have a

positive result in our net income for the next few years. We will have value generation. And these are the main reasons why.

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

Perfect. Felipe, thank you very much. So in summary if we -- the effect in EBITDA is going to be neutral. Looking ahead, the net-net of this transition will be good proxy of value for you, a good positive result. That is, I won't have to do any negative adjustment here after this transaction with Zurich, right? Thank you.

**Operator**

Mr. Richard Cathcart from Bradesco BBI has a question.

**Q - Richard Cathcart** {BIO 16457807 <GO>}

Good afternoon everyone. I have two questions. The first one is about the pricing strategy of the company. We see that you have a margin drop in 5% average, and I would like to understand if you have a problem in terms of pricing. And if you have a problem there, what are the initiatives that you're taking to address the problem and maybe grow in a more expedited fashion, considering that you have that lower gross margin.

And my second question, maybe can you quantify what you see for next year, in terms of legal claims cost reductions?

**A - Paulo Naliato**

Hello, this is Naliato. After -- I will talk about pricing, and then I'll turn it to Felipe, he will talk then about the legal claim process. Well, as you mentioned, the margin, we don't have a problem of pricing here. We do have a strong investment on our tools -- our pricing tools for online channel, for brick-and-mortar channels. This is growing in an important way. We did have a quarter with two distinct moments. We start the quarter right after the World Cup. It was a post-World Cup effect in a more competitive environment. And, as Flavio has mentioned, we worked to implement several tools, and that is very important for the company. We had to do that type of accelerations and that's rolling out in the periods, so that we could adjust ourselves.

And we start the fourth quarter in a more confident fashion, being able to benefit from all these tools. And in addition to that, Via Unica that Flavio mentioned as well, it is helping us work in a distinct -- fashion our marketing investments, and marketing investments with better flow generation and demand in different channels. That also is helping us positively in terms of our pricing strategy. We see a scenario of adaptation in this third quarter, with a higher investment in marketing, that is reflecting in our results. We are using all technologies that we have been developing over the past few months with Via Unica projects. And now we are working in an integrated way with our pricing tool, so that we can have better prices, sales increase with margins increase. I think that's what is our outlook for pricing.

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**A - Felipe Negrao** {BIO 19434019 <GO>}

Good afternoon, Richard. This is Felipe. Now about the losses, first we should say that these are expenses that are -- they did not just stand in the short-term sales of the company. As I have been saying, there is an ongoing project, which is in line with -- actually it's better than what we had planned, and we are now delivering exactly the -- what was budgeted for the year. For this year, we still have a final quarter to go. But so far, we are in line with the year budget.

For the next year, we are still working on our budget. So I want to be sure in the months from now. So I believe that it's nominal -- nominally for label -- labor expenses, which are the main expenses in this line, we will have a reduction from 10% to 20% compared to this year, starting on the first quarter, and that will depend on our will to reduce, more or less, the number of legal lawsuits. And that will be balanced. So as you know, the net revenue defense on the revenue as well -- on the sales as well. And so we are bringing down the number of lawsuits. And, also, we expect higher level sales next year.

**Q - Richard Cathcart** {BIO 16457807 <GO>}

Okay. Just to understand, that reduction from 10% to 20%, that you mentioned right now in the March figures, this would be for the whole year or just the first quarter, or the first month?

**A - Felipe Negrao** {BIO 19434019 <GO>}

No, for the whole year. This is for the whole year. We will have a behavior that will be specific for the quarter, so we expect to have that for quarter but distributed over the year. If we decide to expedite the reductions in the number of lawsuits to close, to settle these lawsuits. So that could -- then will vary. Within those 10% to 20%, it will depend on the decision that we'll make next year.

Once again, we have not closed on our budget for next year, yet. And so that's what we estimate for the year.

**Q - Richard Cathcart** {BIO 16457807 <GO>}

Okay, thank you very much.

**Operator**

Mr. Ruben Couto from Santander has a question.

**Q - Ruben Couto** {BIO 20636571 <GO>}

Good morning everyone. have 2 questions. First, can you tell us more about B2B segment and the services on the online channel, because we see once the GMV growing, but I would like to have more visibility about the rest of the online channel. What can we expect for the fourth quarter? And in addition to that, I would like to hear from Maurizio, as well, how is the digital positioning of Via Varejo? The increased investments in marketing that we have seen in the third quarter was one-time off, because of the app? Do we have a

structural change, something that we'll see next year? So I would like to see and to hear a little bit more of him on what we should expect in terms of marketing as well.

### **A - Flavio Dias** {BIO 18281132 <GO>}

Hello, this is Flavio, and I will address the first part of your question. About other businesses, B2B has good performance, with an important growth when compared to prior year. Another component that is important, here, is wholesale. And, then, for wholesale, we are -- we're working the process, we're working the business. And that's important, this is impacting the sales share. Last year there was a greater share there. And other things are part of the figures, but the main deterioration comes, especially, from wholesale, which is positive. We understand this is the right movement. And we want that to grow again, but following a more sustainable and profitable model. So B2B is going very well. It's growing, there are no partnerships coming in, the volume is increasing, we do have opportunities in wholesale.

About marketing, yes, I can tell you a little bit. And -- but then -- and I'll turn to Maurizio for his initial remarks on that. But I'm sure that with the maturities that we are gaining with Via Unica, we have been able to have a good visibility on the returns, better than what we had before. Therefore, we can make better choices based on the statistics, on data and new attribution models. We see the increase of the customer lifetime value. This is important. We didn't measure that before, and now this is being translated. And how we see now before coming and buying with us more frequently. We do have a lot to improve. But this is an example of the increased sales Via+ and that reflects another direct communication.

We have had a better conversion rate because of greater relevance that we have now, thanks to our advancement and segmentation. Therefore, we feel that component of rebuying and the importance of CRM growing, as Via Unica matures. And also increasing our returns on investments. And, yes, we do have more investments to be made -- to make at the top of this funnel to acquire apps, that as we head into third quarter, and it should continue. Maybe not at the same speed, when compared to revenue, but (inaudible), yes, we'll just have important investments there. We will have apps there implemented to improve our results from now on. I think that the trends for the next years, our understanding is not to increase the marketing investment as a percentage of the company's GMV. We do have, though, with efficiency gains to be able to continue doing this type of rationalization. But we do understand that this is important, and we already see how this is going to reflect in the sustainable part.

### **A - Maurizio de Franciscis** {BIO 20841743 <GO>}

Good afternoon. I would like to add -- we are having a more precise attitude in terms of marketing and investments in terms of our decisions. And it's very clear, mainly if you consider the variety and types of investments in all the fronts in which we invest with marketing, products, and together with that, we have an evolution in our technology base, the growth in the app use, which should play a very important role in terms of sales channels in the next two or three quarters. And this also has to do with our marketing costs in order to recent sales because, confirming what he was saying, we have



fundamentally a scenario in which we do not foresee an increase in our marketing investments regarding our GMV and we have the opportunity ahead in this sense.

**Q - Ruben Couto** {BIO 20636571 <GO>}

Very clear, thank you very much.

**Operator**

Mr. Luiz Felipe from BTG Pactual would like to ask a question.

**Q - Luiz Felipe** {BIO 17478308 <GO>}

Good afternoon everybody. My question has to do with the growth of the marketplace. Could you talk about the evolution in the number of sellers and SKUs over this quarter? And another question, what about the evolution of full-commerce? What about the development of this in the last few months? What about your platform, the number of sellers? Because you have been launching quite a few initiatives, and I believe that Via+ will contribute to the growth of market base in the next few years. So I would like to understand this evolution, please.

**A - Maurizio de Franciscis** {BIO 20841743 <GO>}

Market base had a very good evolution in number of sellers over this quarter. And a few quarters ago, we made a decision to make a more restrictive attitude in terms of the coming onboard of sellers, and this was very important for us. We were able to restructure the process, and in the last few months, we were able to combine an important inflow of sellers and maintaining our standard of quality with about 4,100 sellers, active sellers, and exceeding 2 million SKUs in the same time frame. And you saw the growth in sales is also coming very well and with a very good evolution, and our participation is increasing overall, and we believe that this will continue from now on. So this is an important point. Now regarding to full-commerce, we had the implementation in the launch of the store, the physical store, and we have other contracts that are being signed now.

But it is also important to say that the integration of the company had an impact. And in terms of what we intended to launch in full-commerce systems, then that will bring to us -- so a few months, so that we may have a higher number of clients be included in the platform. We are progressing these negotiations. A lot of people are interested, both on the industry side and the seller side. And some new implementations are already happening and will continue to happen still within 2018. And our expectation is that, as of the beginning of 2019, we might be able to have a more scalable and more massive coming onboard of new clients as soon as we are able to deliver all these adjustments, all the fine tuning that we are doing now. So we do not expect an impact still within 2018. We will see this format. But for 2019, this will be an important component of our strategy and evolution of the model as well as the revenue inflow that we will have because of the coming onboard of new clients.

**Q - Luiz Felipe** {BIO 17478308 <GO>}

Thank you very much.

## Operator

Gustavo Oliveira from UBS would like to ask a question.

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

Good afternoon, everybody. I would like to know what went wrong in this quarter. So far, little has been said about Via+. And I would like to know -- well, you already have 60%. And the time for conclusion is much shorter. The performance is as you described top. With all that, the impact should have been positive. But I understand you had problems in terms of the implementation. Now what kind of problem did you face? Was it a pricing problem or systems problem or maybe a blackout situation? Because we hear so many things that we don't really know what is going on. So what went wrong in this quarter, in this implementation? Because it came as a surprise to us.

And I would like to understand, already linked to this, you talked about lower sales and services and credit operations. Is this associated to the problem that you are facing in the operation of stores with the new systems? Or is it just a change in your policy? So I would like to better understand. Paulo said that the quarter started very difficult, with competition and problem of the World Cup. But I understand that you expected a certain improvement over the quarter, and it did not happen.

### A - Flavio Dias {BIO 18281132 <GO>}

I would like to start with the impact of systems implementation in this quarter more specifically. And this was important because we made an in-depth change in the infrastructure of our stores and in terms of connectivity so that the new system could be implemented and also the implementation of the app. So I'm talking about two things. And like any other change, any other major change, there are some initial instabilities and some adjustments that are necessary, and they have already been carried out.

Now we already have the systems in place. And the adoption was lower over the quarter, and it started accelerating after we reached the high degree of confidence in terms of stabilization of the system. And the advantages that you mentioned that I talked about, the problems that we saw recently, and that helped us in the quarter. And as Paulo said, we had two moments in the quarter -- two different moments in the quarter. And the second moment was a moment in which we started to reap some benefits already. And we could have achieved a better performance if we had not needed to carry out these adjustments. And because of all that I have just described, we had -- we delivered the performance that you referred to. And I would like to ask Paulo to add.

### A - Paulo Naliato

Well, as Flavio said, as far as we were concerned, it would be fundamental for us in the third quarter, going back to Richard's question, to have these implementations in place so that we could go through this robust change, and in order for us to get into the fourth quarter already reaping the benefits of these changes and not having this only in 2019. So

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in face of all these changes in the third quarter, that -- well, this was very important for us. Of course, there is an adaptation period, a period in which we have to do the fine tuning, and because of that, we could not reap all the benefits of all the advantages that are brought about by these tools. And Felipe referred to a change in our credit policy as well, and this was extremely positive for the company, and it is very positive for the company if you look at the P&L and financial services.

However, it brings about a lower revenue inflow and benefit in terms of our PDA. And this revenue generation has an impact, the initial impact, on our gross margin. But we already see a positive situation. And this is why I say that, in the third quarter, we had two different moments. At the end of the third quarter, with the tools already in place, mainly with Via+ in the stores, we already see a gain in productivity and the offer of services, especially financial services and direct consumer finance.

But we already -- allows us to go back to the trend of offers and sales, going back to the previous levels, the level we had before implementing these changes. And then this brings us the benefits that we expected from the implementation of the tools. And we also have investment and an adjustment in our marketing strategy that you can see in our results in a very positive manner. This has been showing a very good impact on the traffic of clients into the stores and also online integrated to the pricing policy, and this here, I go back to what Richard was saying, allowing us to have an important evolution in our pricing model, aiming at the best, the best offer with the best margin and the balance between our offer and the margins.

So in a nutshell, we had two different moments in the quarter and in the second part of this quarter, we had very positive signs with a recovery of insurance operations and financial services, and improvement in the traffic of clients and the volume of our business as well. So we see a very positive trend here, and we are very bullish about that. And we believe that this will continue for the next few quarters. Yes. I think it's a little bit more clear, that is to say, the adoption today is also more than 60% or was 100% with Via+. Well, 70%, 75%. And on our -- but we will be -- we ended the third quarter with the thought that, in the fourth quarter, we will have a total implementation. And it is important to say that in terms of security, we have the two environments operating for those who had difficulty regarding the use of the new platform, the old platform is there as a contingency and also being flexible as much as necessary in order to cater to everybody.

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

And lastly, you talked about the volume of sales and that you have already recovered the level that you had before the implementation of the changes, correct? I think this is what you said. We had an important evolution in the volume of sales over the quarter. And this shows a good level of productivity of the team but especially the more positive combination of all factors, productivity, offers, pricing, inflows for traffic of clients.

**A - Felipe Negrão** {BIO 19434019 <GO>}

Gustavo, when we are talking about credit, I would like to add to what Paulo said. We have been talking very frequently about the change in our credit granting policy, credit assignment policy. And [ph]three years ago, it was around 70% approval, and now we

have about 50% approval rate. So you can see our credit revenue, you can see the improvements in our PDA. Part of the PDA is in credits. And you also have the financial expenses. In the last quarter, we grew over 50% because of the credit operations, and this has an impact on the gross margin. This is important. But at the end, it is positive for the company.

And as Paulo said, inside the store, we will be able to offset this lower rate of approval. So we will be able to offset the effect. There are other initiatives outside the stores as well that will make our process much faster. And we also will be starting a pilot for our employees on December 5, and it is part of what we call the digital CDC. And if you don't have a purchase approval because of your credit limit on your card, and this happens quite often, we will be delivering this as of December 5 starting with our employees just to see if it really works. So then we will be pre-approving this. And afterwards, we will make this delivery -- delivered or made available for everybody.

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

What would be the effect of this lower credit approval rate on your margin? You had almost 400 bps in terms of effect on your gross margin.

**A - Felipe Negrão** {BIO 19434019 <GO>}

Well, this has to do with revenue from credit operations and merchandise operations, which has impact on the gross margin, because of our P&L, you have the interest revenue, of course, coming into place, and you have the PDA and collection, et cetera, the financial expenses that you can see. So it's very easy to check the maths of that, and you can see the impact there.

**Operator**

Joseph Giordano of JPMorgan would like to ask a question.

**Q - Joseph Giordano** {BIO 17751061 <GO>}

Good afternoon. I would like to ask a question. Thank you very much. You talked about competition and -- this had an impact on the quarter. And when we look at the level of inventory of the company, you mentioned that this was capped due to strategic reasons. And I would like to understand the market in general. The inventory is slightly higher. And I would like to know if we should expect Via Varejo being a little bit more aggressive, commercially speaking? Maybe waiving a little bit of the gross margin in order to recover growth. And Felipe talked about Airfox. And I would like to understand, besides the consumer direct, the CDC, what could we see on Airfox? And how would you monetize this platform initially? And if possible, could you give us some details about the economics that lie beyond this?

**A - Paulo Naliato**

Hello, this is Paulo, and I will be addressing the first part of this question. About this last quarter, we are prepared to have a strong quarter. We know that we are just in the beginning of the fourth quarter. It is a period that has great influence with Black Friday and

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Christmas. So our performance depends upon what now lies ahead. But all investments that we are making and all of that, all those changes and a well-positioned inventory that we have, all of that allows us to have a reverse planning. I think we are well prepared vis-a-vis our negotiations with the industry, also, pricing models evolution and marketing as well. We are starting this quarter with new configurations. The app is the first one that we will see. The app is going to be available. We'll be able to be offer different things to our consumers. We'll have more productivity and more ability to serve the customers. So we are optimistic about a good execution in this last quarter. And the combination of factors and a well-sized inventory for a robust sales period makes us feel comfortable about facing this (inaudible).

#### **A - Felipe Negrão** {BIO 19434019 <GO>}

Hello, this is Felipe. Good afternoon. About Airfox, let me give you more information on it. On December 11, we will start a pilot of Airfox. We'll be able to conclude all the credit operations in the stores that we'll be selecting as pilot stores. So you will be able to have the type of availability of credit operations at those stores. We are already operating right now. We're just concluding the process, the bid for the prepaid card in the digital accounts. So we are working with a banner, also another for processor and other one for the card issuer.

In December, we will conclude the bid for these three areas. So we should have the prepaid card linked to the digital wallet very soon. Brand is very important for us. We have everything ready in our portfolio, but we have to spend on another area right now because we are setting the brand. We are working with that -- with Airfox to see if Airfox is the name that we are going to keep, if we'll change that name or to which name we will switch if that's the case. So right now, we are working on a strategy to tap into clients. But to start, we will depend on the conclusion of the study, which should happen in January. And -- but we are aligned with the process, with the schedule that we have established, and taken to the board next week, we will sum up with a new agenda to see if we can expedite the process. And this is a network effect of business, the fastest, the best. So that's how we're working now. We're tracking how we can accelerate it, expedite this process, and we are following this very closely so that we can deliver all with the due date.

#### **Q - Joseph Giordano** {BIO 17751061 <GO>}

Thank you.

#### **Operator**

Tobias Stingelin from Citibank has a question.

#### **Q - Tobias Stingelin** {BIO 18290133 <GO>}

Hello, everyone, hello Flavio. When you were talking about the quarter, you said we're growing. And once again, you said 70%, 75% with Via+. But you know -- you said that we know that we have challenges ahead. And I would like to know what are the great challenges that you see ahead. Do you have to conclude the rolling out in the fourth quarter? And what is your main concern in terms of challenges now? And another question, you have been testing Via+ in 100 stores, and now you're saying we are

expediting the rolling out. These tests that you had before, and these 100 stores didn't give you visibility enough and you're saying it went out of your control? Was that -- was there something that you did not see in the past?

#### **A - Flavio Dias** {BIO 18281132 <GO>}

Thank you very much for your question. Yes, we do have some challenges ahead. And I think the challenges are always there. But still, in this structural stage, we need to take the final steps on our integration process. We have gone forward very well in the project. I told several of you, and I don't know if I did talk specifically to you recently, but we have started the transferring of this in a partial way so that we could work on a safe side. We have ran dozens of thousands of orders from the online under this new system of Via Varejo. And by running these thousands of orders, we transferred categories, furniture, TVs, mobile phones and so on. And this partial transfer allowed us to identify adjustments, bugs, improvements that needed to be made at that moment on the integration.

And we have then decided this transferring process right now so that we could go through Black Friday and conclude this transferring process after Black Friday, turning everything into a single system after that. And so that at the end of December, we would have the total integration of the company, starting 2019 with a single system and under a single company ID number. I think this is going to be the most important in terms of operations of processes and systems. But yes, as we are following our schedule, we have a learning curve. We are taking the best out of these new systems and new processes, and we do that when we work on it. And now we are working on a continuous improvement system on top of this margin and this new structure we have designed. It's important for us to know that we have that ahead. We are optimistic regarding the choices we have made that are mitigating risks of such an implementation, but this is a huge implementation.

And we are working hard so that we have no major impact. About Via+, yes, we did run the pilot project. And when we scaled that into other stores, it's only natural that in the scaling process. Other things did come up and things that did not show in the pilot process, but nothing critical. It's important to mention these were natural instabilities of a large rolling out process. They were quickly addressed. And they are part of this type of process, this type of rollout. And I am sure that other companies that have done the same thing also had the same problem. And we, now are confident that we have a stable process, and that is already bringing in us gains as we have already mentioned.

#### **Q - Tobias Stingelin** {BIO 18290133 <GO>}

Just a quick follow-up. If we look at the trend in everything that you have said before of sales that have grown but did grow that much, it was a modest growth. The margins dropped a lot, and you have the impacts to all the financial services that Negrao had said. So you've had expenses. You had marketing. You did a lot to grow sales, but sales did not react or didn't react as expected. Obviously, you mentioned systems and other factors. But looking ahead and considering that improvement trend, what can we expect for the fourth quarter? Do you believe the margin will come back to normal sales or towards the better direction because this scenario is different, right?

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## A - Paulo Naliato

Tobias, this is Paulo. You know that we do not provide guidance, so I will try to help you in this rationale. As we said, we had a quarter with an important growth in different factors. Those were present at the end of the third quarter. With the extent of this performance, we also do depend on market conditions, also, in this third quarter. But as far as this period is concerned where we have the great seasonality of the year, we do have a great expectation of sales increase. We also expected to grow in margin. And also, greater demand [ph]stressed by our new marketing strategy. Considering that all of that is a combination in order to have more sales and more margin. So a better execution, maturing the execution with all the investment that we have been making that have great tools that are helping us to make decisions in terms of pricing, media and sales. And we believe the fourth quarter will have a great performance.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much.

## Operator

We end now the Q&A session. We would like to turn the floor back to the company for their final remarks.

## A - Flavio Dias {BIO 18281132 <GO>}

Very well. Thank you very much for participating, for asking questions. And I would like to stress that the whole team is committed to keep on working hard on the company, accelerating in this transformation process and looking for all types of opportunities we can to generate value that is going to be reflected in our P&L in the short term. We have to do both things together at the same time. Working with these strategic partnerships, we foresee a successful path ahead, although we know that we have challenges in the future. Once again, thank you very much, and have a nice afternoon.

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