Q3 2018 Earnings Call

Company Participants

- EugÃªnio De Zagottis, Corporate Planning & IR Officer and Member of Executive Board
- MarcÃlio D'Amigo Pousada, CEO & Member of Board Executive Director

Other Participants

- Andres Estevez, Analyst
- Olivia B. Petronilho, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to RD People Health and Well-being Conference Call to discuss its 3Q '18 results. The audio of this conference is being broadcast simultaneously through the Internet on the website www.rd.com.br/ir. In that address, you can also find the slide show presentation available for download. (Operator Instructions) Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of RD management and on information currently available to the company. Forward-looking statements are not guarantees 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 in the future. Investors should understand the general economic conditions, industry conditions and other operating factors could also affect the future results of RD and could cause results to differ materially from those expressed in such forward-looking statements.

Today with us are Mr. MarcÃlio Pousada, CEO; Mr. EugÃªnio De Zagottis, Investor Relations and Corporate Planning Vice President; and Gabriel Rosenberg, IR and Corporate Planning Director. Now I will turn the conference over to Mr. MarcÃlio Pousada. Sir, you may begin your conference.

MarcÃlio D'Amigo Pousada

Thank you. Good morning, everyone. Welcome to the presentation of results of the Third Quarter 2018 year to date. As always, EugÃªnio will present the last Q results and (fortunately,) we would like to stress our outreach about the market and the results also and introduce our new strategic plan.

EugÃªnio De Zagottis

Hello, everybody. Welcome to the RD Q3 '18 conference call. Thank you, all for attending. I'd like to start by acknowledging that this was a challenging quarter for us, a quarter that was affected by lots of operating leverage in the first place but also some extent by a huge comp of 3Q '17. When we had completed both in terms of mature-store sales and (inaudible). We ended the period with 1,768 stores, we opened 64 new stores and closed another 4 stores in the quarter. Our gross revenues totaled BRL 3.9 billion, 10.2% consolidated growth with 0.84 (inaudible). It's important to mention that last year in the recent quarter our mature stores had grown 3.5%, which was much higher than both the previous and this financial quarter. Our gross margins total 28.3%, a 20 bps percentage point -- 30 bps pressure, which comes from buyables that we gained 10 bps of repayable margin and -- but we lost 30 by -- 30 bps from the 4Bio (inaudible) effect. Our EBITDA ratched BRL 295 million, 7.5% on margin. And 80 bps pressure. And again, we had Third Quarter this year of 40 bps lower expense number than the previous quarter. So again, this is the effect of the comp base. Our net income totaled BRL 131 million, 3.3% of net margin. Our neutral cash flow growth in terms of total and in terms of free cash flow.

Onto page four of this -- so we ended the period with 1,768 stores. We opened 64 new stores and closed 4 stores. Over the last 12 months, we have already opened 220 stores. So we are reiterating the guidance of 240 new stores, both for this year as well as for 2019. And by the end of the quarter, more than 36% of our stores were still under the process of maturation.

On Page 5, we can discuss in more details in terms of our growth strategy. So we ended -- of the 1,768 stores we ended the period, 8 were (riot) stores while 943 were built at new stores. I'd like to highlight that the branches that we have already built in the North East and Northern regions in Brazil, where we have more than 200 stores already there. It's important to mention we're entering Para, which increased our market to a total 22 states in Brazil. By the end of the quarter, we had 90 stores in Para.

Today,(inaudible) have (15) stores already operational, which are located in 6 different cities in Para. We would project that by year-end, we'll have 20 stores there. And over next year, we will exceed 30 stores on that line. We believe there's a huge gap in the market that was left by big bank, which was the long-term market leader there. And we wanted to fill that void. We think it was (inaudible). So behind all this growth in the North and Northeast regions of Brazil that I just highlighted, we have a very clear strategy of different organization of the growth. So if you look at the table below and the chart, in the beginning of 2016, roughly 2/3 of our growth was in the state of Sao Paulo. If you look at this last quarter, only 1/3 of the total growth took place in Sao Paulo.

If we consider the state of Sao Paulo. And all (inaudible) neighborhoods, which is really the regions where we are the strongest in terms of market share. We had new stores in the region of Sao Paulo that represent less than 10% of the total growth. So what we're doing here is we are really leveraging the national growth platform that we have created over the year. This is something very unique about us. We are the only player in Brazil to have this national growth platform available for us. We are not the only player with a national presence; there's a player that has even more states than us. But if we define a national player like one who make money on a consistent basis on each market and who has seen less expected returns in every market when -- we are the only national player in Brazil. All of our competitors, they are strong in their native market. But as they grow to new markets, they face tremendous exit barriers and the performance of the stores becomes very different from the native regions. And obviously, the margin will follow suit. So this is something very unique about us.

We already have -- we'll have by end of the year, half our revenues happening outside of SÃ£o Paulo. So what will sustain our growth in the years coming forward is this national presence. We have the right to open 40 stores because of this reach we've built in Brazil. None of our competitors can open nearly these many stores because they only have a small number of markets where they make money. Looking ahead to the (right) of market share, we gain measurable market share. So we reached 12% of market share at 30 bps gain. In Sao Paulo, we lost 50 bps of market share in those revenues. But what's very important is that, if you look at the shares in terms of new result, our share has remained flat. So as you know, we have invested very significantly in prices especially in generics. We already see the volumes moving our market share. Obviously because the prices are much lower in terms of revenues, the share gain, the share (inaudible) doesn't appear. But in terms of (inaudible) this is already taking place. And then we gain share in most of the markets where we operate.

So as I mentioned before, our consolidated growth totaled 10% in the quarter, of which around 9% took place in retaining and Sao Paulo grew north of 40%. This is 40% on top of 50% tri-quarter next year on top 100% the previous year. So (inaudible) what's that mean then? When we bought the company -- the year before we bought the company and there is a good likelihood that we could reach BRL 1 billion next year.

When you look at the product mix, all this construction (inaudible) has been highlighted. So (inaudible) 10.4%. It gained 30 bps on the mix. What you see was really the highlight was 13% growth. And we gained 60 bps on the mix. But it's important to mention that the switch happened in the market from OTC -- from brand to OTC, which is really boosting the OTC growth. So the switch amounted 40 bps more for OTC in the mix, the rest for branded mix. If you just cut the switch, we gained 20 bps on OTC. (inaudible) we can branded, the number without the switch would have been 44.5. So it's only 30 bps below what it was on the -- on the First Quarter. And obviously, this low growth of rate is having affected by the switch. So if we take out the switch effect, branded is growing closer to the average of the company.

Here we can talk more about our comps. So we gain again 10% consolidated growth with minus 3.2% for the mature stores. First as again effect of 30 bps, it's not that much but it has some effect. But the main point here is not a sequential month-on-month acceleration, we're not seeing that. What happened is that we're comparing to a very strong 3Q '17 when mature stores grew 3.5%. This is 1.5% more than what we have seen on the second Q '17. And almost 3% more than what we saw on the 4Q '17. So it's very clear that there was a peak in terms of revenues that also generated a very strong expense revolution. But this revenue peak is affecting us. What I like it is that when we look at October figures, what we see is our maturity crops getting back to 1Q and second Q levels. So we don't have a sequential deceleration thing to company effect. So obviously, the 4Q won't be as high as we want it to be, not yet. But it's back to the 1Q and second-Q level. So I will say we have stabilized our growth and from now on, we want to start our strategy quarter after quarter after quarter. This low growth regardless if it's minus 3% or minus 1%, it's really driven by a price erosion in generics. This is something that happens at large in the market. But we are investing in prices way more than what the market invests. And this is part of our strategy; I'll talk more about that. But the great thing is that (inaudible) pricing is starting to drive volume growth. Very high volume growth in generics and overall volume growth is also starting to appear. And that is the basis for group monetization probably in the second half of next year when the price base becomes comparable. Before the price base becomes comparable, the erosions makes it impossible for us to get back to historical growth levels.

Coming on the next page. Page 8. We can talk about margin and gross margin and cash cycle. So we record 28.3% of gross margins on a consolidated basis. This is 20 bps below 2017. But when we separate, we pay from 4Bio. We gained 10 bps of retail gross margin despite a huge investment we have on pricing. So we had a price initiative on the (far shop) that is helping us gain some money to invest in pharmaceuticals. We have improved our buy terms, we have done opportunity purchasing. So all in all, despite a big price investment, our retail margin went up. But because 4Bio is growing 40% a year and 4Bio carries a lower margin, we have a minus 30 bps effect on the consolidated gross margin. When we look at the cash cycle, we see a high pace pressure and I have to break down -- part of that is coming from receivables. So we have 2 more days of receivables versus last year. And what happened is that the quarter ended on a weekend and last quarter end on a weekend. Our collection is postponed to the last Monday. So obviously, our accounts receivable can be done than otherwise. I have been saying this every quarter this year it was some -- at some point I decided to check if it was indeed true. And it is. Every quarter this year so far has ended on a weekend. So (inaudible) and the good thing is that when we get back to a quarter that ends on a week day, that should be about today improved 1.5 to date. Obviously price growth is also in effect.

But the growth here is really the (inaudible). Then when you look at inventories, largest accounts payable and we really look at the spread between both, because I do a lot of opportunity buying (inaudible) by our suppliers. Here we have a 3-day cash cycle deterioration. This is related first and foremost because we have this operating leverage and new effects in maturation (sickness). But also we have been very aggressive in terms of opportunity buying. Generally, it is self-funded strategy. But sometimes the opportunity that we have to invest working capital. But they create enough volume to generate enough value to justify it. So we have (that in) and obviously it's a bigger working capital now than it was before. But I think that it will get better as it goes.

Page 9, talking about selling expenses and G&A also. So total expenses was 20.8% in the quarter. If you look on a sequential basis for Q '17 to 3Q '18, this is the fine margin. When we compare to 3Q '17, that's a different story. Because as I mentioned, we have a very strong (form) base and the expense was probably the lowest we have seen in a very long time in the company. So half of the pressure that we see has to do with loose operating leverage because of lower growth. The other half has to do with not -- with (problem in the quarter). But we have extremely strong quarter in the 3Q '17.

On Page 10, there was some rise on EBITDA. We lost 80 bps of EBITDA and again the same story, pretty much half has to do with loose operating leverage while the other half has to do with the strength of 3Q '17. The weakening on the margin was 7.8%. So we see that as 4Bio becomes a bigger part of our revenues, the margin pressure also becomes bigger. So we have 30 bps consolidated pressure because 4Bio is growing if we carry to lower margin.

On Page 11, we see that we reached net income of BRL 131 million, 3.3% of net margin. So we lost 80 bps of EBITDA and 50 bps of net margin. We also highlight here no -- nonrecurring expenses. We had BRL 2.2 million related in consulting fees in our strategic planning. And we also gained massive write-offs regarding Farmasil. MarcÃlio will talk about how our new (polka) form of strategy. We are significantly enhancing the format. This is based on our lower and higher sales area. And not every store can be expanded or adapted. So there are closures. And we are adjusting the write-off related to pharmacy closures.

On Page 12, we see that the cash generation -- we have a neutral cash generation in the quarter, both in terms of free cash flow and total cash flow. And year-to-date, we have BRL 170 million free cash flow advancement and BRL 298 million total cash flows (inaudible). Opposite, we're comparing to 4Q '17 and 4Q (inaudible) peak so any quarter suffers when compared to that. So we believe that by year-end that the cash consumption will be lower than this. But still our leverage has remained something like 0.5, 0.6 of net revenues. It's very low. So we're very comfortable to keep investing in our growth.

Then finally, before I switch off to MarcÃlio, we can still see our share price. So year to date, we had a price contraction of 20% versus an IBOVESPA growth of 6.5%. So this reflects the short-term pains we are enduring. But it's great that when we look at the long-term, we have (inaudible) that we have generated an annual shareholder return of around 28%. And (inaudible) an annual shareholder return of 28.6% of revenue. So consistent long-term recreation. And this is what we always seek.

I'll now pass on to MarcÃlio and then I'll be back to discuss the IR activities. And then we will go for Q&A.

MarcÃlio D'Amigo Pousada

Okay, EugÃªnio. Guys, come to page 14 please. I'll talk a little bit about the market and the (inaudible). Since the beginning of this year, we know that this could result to compare (inaudible). And Third Quarter was the best quarter for our lives, okay? We know that 2016 and 2016-2017 were very, very strong years in the company. How to reduce expense, how to prepare the company for hard times in the future, okay? For these reasons (inaudible) to analyze the quarter, we compare it to last year. But it's good to talk more about the current market in the (inaudible) reach the company in the medium and the long-term. (inaudible) generics since the beginning of this year. This creates a difficult to grow because (inaudible) very, very slower than the last year, not lower than, it's good lower than inflation last year. But help a loss to grow (inaudible) source. This growth for us is strategically important business and it can help us in consolidating the market in the business. When you stood the business in other accounts, you know how important the

Generics, the role for their consolidation in the market. The (generics) competition to get this large company is tossed by the competitors led to deterioration results of all the market, not only for us. The results in other companies have been terrible this year and you're looking on (inaudible) numbers, okay? But this also affect our numbers. But in different way. They affect more when you look at the operating leverage, we've loosed the operating leverage when compared to last year.

But even in this corporate market, we invest a lot of pricing and we renew this (inaudible) margin. We lost just 20 bps in the margin. But only because of 4Bio mix effect. We use all the gain that we have in margin during this year to put more pressure in the price. Then we had paid the margins and gain for the customer to be more competitive.

Another point that's brought into stress here is the cost for expansion, okay? In 2006 we had to be set for live expansion. You also deleverage of the national (inaudible). And Sao Paulo represents only 1/3 of (respacho). So if you go to (inaudible) San Paulo is 10% of store opening. We had almost 50% of our revenues (made up) this year would be outside the state of Sao Paulo. This is very important for us because (inaudible) led to opening stores and lead to the consolidation in market. We had entering Para, where we had 15 stores in 6 states. And you like to reach to goal of 20 stores by this year and 30 next year. This may be our lowest with the second player in the (inaudible) market (inaudible) to open a great number overview and it would turning to be the same as in the past, okay? We have planned to open 204 stores this year and you have the guidance to open 240 stores for next year else. This has typically been our business best, it's not that over the time, we had market cycles, always, you have this market size in 34 -- I think it was 45 per year, all stress. We are now in this stress cycle, okay? If you compare our performance with our competitors, we can keep it pretty (edge) in our store difference between the result of our competitors and our services. And we help them in the opportunity to restrain our competitive position, gain market share for the future.

We now head north to the competitor start to opening less new stores and also starts to close several existing one, which led to (inaudible) to invest the second (inaudible). We know we talk about the opening like (inaudible) the people started opening stores (like a great) and you had the new stores never produce (inaudible) cycle (inaudible) problem that results (inaudible) company (inaudible) open store and to keep the same pace for the future.

The main driver has finished this market remains unchanged, which is the aging of population. We believe the age of the cycle we have to date constitutes market share and to improve our results. Many to (take part) of our operation. Operations is very important, people is important. Decision to wide open stores making investments, this is the driver for consolidate this market. It's not now obviously changing the market right now. That won't appreciate (inaudible) talk about our new strategic plan. (inaudible) important to understand how this work in your company, okay?

Just after the integration of 2013 and we did (inaudible), we made our strategic planning called projected volumes. It's our guidance for the strategy for the next 4 or five years in the company.

The project large effect will help us to bring us 4 different assets that (inaudible) right now. The first asset is that we are a national chain, we are present in 22 states and half our revenues that were determined for outside Sao Paulo. This is directly in Brazil (inaudible) Brazil where the people with international changing the manner to (inaudible) potential growth (inaudible) reviewing your granular growth and you know how good it is.

The other effects that we had is that we had 30 million customer in our database and it's almost the database as a telecom company, okay? And we learn how to view the relationship with customers better and better every day. The third asset is our strongest balance sheet in (inaudible) industry. We had growth, we double leverage the company, we had growth always looking for the numbers as growth always every new store in the market better than our last. And that has helped with all the advantages. And the best thing for us also the follow steps we had 1 thing, very, very good thing. People that driving this business trajectory represent take care of the clients' health and well-being (inaudible) their lives, okay? One of best things (inaudible) so far is compare with your competition. We believe that we do not said we need to enter another great for the company. We have create more benefit for the company future. Then will start to -- beginning of this year to planning the projects launched to, okay? The next (inaudible) for the next five years. This is the house that we show in this slide. We're opening a house, okay? Just we had 3 to 5 parts on a (inaudible), never want go forward plan is to improve (inaudible) spreads and recognize the large of our customer increasing a plan of (inaudible). This is -- we plan to take many variables for this plan, okay? In order to (inaudible) in the center of our business and to step very well that (inaudible) the company has much more to compensate all the P&L stores or the number for the (inaudible) we have P&L for the customers. This is the (inaudible) business. The (inaudible) also (inaudible).

The first one, it starts expansion; the other is, customer acquisition; large and operations is the third one; and the tidiness and health expansions.

And we had to house (inaudible) -- what enables to deal with these 5 strategies is that customers (inaudible) have to work all that message to understand how the customers develop that help us develop this business. Another transitional transformation helped to work with Argentine health workers the best and had key items to develop the (inaudible) not only the customer but help to mention the company. Leadership and (inaudible) people again, it's very, very important to the business. And this is (inaudible) how (inaudible) for the company for the future. How to make the company last month, 200 years, okay? So they are extremely important for us in the next page. There's only highlighting 2 slides. The first pillar is digital initiatives. We used this combination the customer jointly and we will start to minimize all the customers' complaints to our businesses. We know how important to the customer use the mobile or Internet to help the journey of this customer.

In 3 different dimensions of customer care, from the first (box) of the customers, for the size of the customers and for the health and the well-being for the customer as well.

For us, it doesn't matter where the customer is making a relationship with us. We start on the mobile. We have started customer the best package possible and they're very similar spread we do have in stock will be have the same thing in the mobile or in the Internet. So arrange (inaudible). And it's (inaudible) leading offshore from our 1,800 stores or indeed more 1,000 stores in (inaudible) in this market.

Just go to the (inaudible) customer in the stores then you have plenty analyst advances to primitive personalization to offer that items for the customers. Offer items that can make the customers it's over the (inaudible) for the customers. We do this because the customer data did this for us and know our customers and we operate to better now than the past. We are blessed (inaudible) with our entire team and culture of innovation, not only in the (inaudible) clinical stores but also in the entire company. Then (inaudible) is very, very important to us. We know because of the company and other levers in the future, okay? The second pillar related to stress as we increase our share, no income is for us. Our (expansive) plan always starts in the marketing with 80 customers. We know the market share that we have in the 80 customers is much higher than the so-called (inaudible) call, okay? And in (inaudible) you need to go to the (inaudible) Q1 customers because, which we opened our new stores. The customers just tell us viewers the basic strategy others stress. The market share just started to reach (2013) and they realize that to reach this market, we need a bigger store, which -- a bigger store, which is HPC items, which offer (inaudible) items. Our biggest store is the former (inaudible). Then we make a decision to upgrade the policy forward and to also look at similar higher brands to serve the customers, okay? This with a strong focus on generics, a strong focus on the price label and the promotionalization (inaudible) that they are.

We're using live (inaudible) and the cost in the business much more (inaudible).

We are (inaudible) created lower tier of higher than last year. We had 300 stores in this lower tier, where 24 more in this lower tier and this format will help us to open 200 more stores per year maybe for the next 4 or five years. We are doing this right now. And they are very, very competent (inaudible) and their policy doing very well.

From a (inaudible) stress, we remain (inaudible) and we support the markets we operate and also opportunities that the market brings towards us in the long run, okay? Our best cycles had showed that companies that focus on long-term (credit) generation are the best to take advantage of the cycles in the market.

Now we continue to focus on long term. Know that you had a golden (inaudible) in 4 or five years ago and their focus is always long term. We know that you have to put more pressure margin right now and do that because it will consolidate market you had a better results in the future. Now EugÃªnio will tell you a little bit about (inaudible). Thank you very much.

EugÃªnio De Zagottis

So just to start with, we have already delayed for our 2018 earnings call. It will take place on February 26, 2019. Then we have a very easy IR schedule set for the next month. So November 13, 14, we'll be in New York at the (inaudible) conference, represented by both MarcÃlio and Gabriel. On November 28 and 29, Gabriel and myself will be here in Sao

Paulo at the JPMorgan conference. January 7, 8, Gabriel will be at the J.P. Morgan Health Care Conference in San Francisco. And finally, January 16 to 18, Gabriel will be at the (inaudible) conference (inaudible). So (inaudible) we are ready for your questions. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Ms. Olivia Petronilho from JPMorgan would like to make a question.

Q - Olivia B. Petronilho {BIO 19090195 <GO>}

I'd like to focus a little bit on the private label (inaudible). You've been expanding the portfolio significantly and now is -- been your format of the popular stores. This should have gained a little bit of relevance in the strategy as a whole. If you could give us a little guidance in terms of where do you see the penetration of private label in the total sales and if we should increase this number in our estimates in our -- versus what we had before given the new strategy for the popular brand.

A - EugÃªnio De Zagottis

Olivia, thanks for the question. If you look at the strategy framework that MarcÃlio presented, I mean, private labels are very important lever for the future. We are very (inaudible) private label when we march (inaudible) private label was nothing. (inaudible) private label represents 4.4% of the front store business. And we have much more to (gross).

Our vision is to double private label penetration in the next 4 to five years. We as a company are devoted completely different level of prioritization for private label. It's becoming a corporate initiative to have shared target not only the private label areas that I need but also with (inaudible) the benefits and also with (inaudible) the operations. So we know this is a huge differentiating factor for the future.

We launched, as you mention, a popular brand, named (inaudible) which is specifically for the quarter performance. As MarcÃlio was mentioning, I mean for us (inaudible) to the next level is a huge priority. I think we have a journey performance (inaudible) up till now with ups and downs.

But there's a big learning in terms of operating model of how we do this kind of deal. We did incorporate that learning in (inaudible). (inaudible) customer stores that we already have under the (inaudible) brand. So we (inaudible) new stores are much more popular, propagate higher focus on generics and several other elements of the pharmaceutical industry to help us. And what we're doing now is, we are revamping the Farmacia format and bringing it to the next level. So we are increasing the store size, which was a very big tradeoff (inaudible) had. Because obviously a smaller store is cheaper. But you don't have a store -- you don't offer -- you can't offer a full experience for the consumer (inaudible).

So we're increasing the store size. We'll have a full offering on the front and obviously private label will be the cornerstone of HPC offering and that's why we created the brand.

We're still keeping all the operational element of Farmasil, like cost discipline, lower CapEx, shorter working hours and so on. But because it's a larger store, we can call it higher (inaudible). We couldn't call (inaudible) because it was a completely different experience. But since we are revamping the format, we maintain the base of the model. But we offer a full shopping experience. We can now leverage the higher (inaudible) brands, which we think will be tremendous to bring the format forward. And MarcÃlio mention we already have 300 popular format and these new popular formats will come even be lower what we have today. And it's a great part of our growth starting from 2019 and this is where private label is a important leverage.

A - MarcÃlio D'Amigo Pousada

And if I could just stress one thing. (inaudible) private label to 2014 (inaudible) It's 4% right now. We are very happy with these numbers and we know we can present much more in the future.

Operator

Mr. Andres from Brasil Plural would like to make a question.

Q - Andres Estevez {BIO 20806759 <GO>}

MarcÃlio, EugÃªnio, Gabriel, my first question is regarding the impact of your expansion plan in average sales per store. We haven't been seeing a gradual deterioration of an average revenues per store as the company continues to expand in major stores. And I want to know if you can give us a better grasp about when we will be able to recovering sales per store. My second question is regarding our market share in Sao Paulo. I want to know what's your view on other well-established competitors in the state. (inaudible) significant part of your market share in the region, moreover. Well how do you think it will be to recover the lost market share? Do you think it will be hard to recover it in the measure that other competitors were established? Or other competitors is (inaudible) more personalized. How hard you think it would be to recover the market share --

A - EugÃªnio De Zagottis

Thank very much. I mean, we believe, I mean, that we did a lot in the capacity that our growth strategy has had in terms of creating brand for the company. I mean, you look the number of stores we open over the next 20 years or even longer than that due to the merger. And the fact that we were able to open these many stores with a big margin expansion, that's the evidence of the capacity that the plan has to create trend -- how good the marginal returns are. How are maturity for sales? They range around BRL 800,000 per store. If you look at the new stores, you are correct -- they're coming slightly lower than that, they're coming something like BRL 700,000 per store per month. But the thing is, this is an achievement of advantages that's coming on top of an existing company and generating (inaudible). So the -- what matters here is not (inaudible) the revenues per store would be the attribute. If that the new stores regardless of how much they sell, that they create value and they are creating value and they help us expand long-term value. So that's what's important. So (inaudible) aggressive (inaudible), yes. But it's -- it reflects the capacity that we have to create value.

We don't think we are overspending, we are not doing best because of the market, we're doing best because we believe in that type of strategy to create value. And I think the historic numbers provide a sufficient evidence of that.

Based on the market share, I stressed in my remarks that yes, we lost 50 bps of share in Sao Paulo in terms of revenues. But in units reflect. So we are already fighting back. For as long as the average price is lower than the previous year, it's difficult to recover this share. But I believe that after a couple of quarters where we start to giving comparable price points, the volume growth will automatically translate in share gain. So that's important. When you look competition in Sao Paulo, the new wave (inaudible) in SÃ£o Paulo, they have not made money from SÃ£o Paulo. So it's very clear none of them. We have more than one company who try to come here.

SÃ£o Paulo is the toughest market in Brazil. Sao Paulo is the market where we have the best players playing at home, which are higher to Brazil than to SÃ£o Paulo. So this is a huge (inaudible) area. And when you have a company coming from outside of this place, whose brand? Nobody knows. The location is not comparable to what we have and even to what the rest of SÃ£o Paulo has.

Execution is not as far for us or even to (inaudible) Sao Paulo. In the end, this is a mutual strategy that brings nothing to the table. And the numbers of the companies will have existed in expansion, I think they talk about themselves. But what I think is very important is that because of the impact that these bad expansion have had for them and here we have a combination of adjusted market overall with huge (pain) from bad expansion on their side.

If we look the last six months in 2017, we see the (inaudible). We opened 104 stores. The rest of (inaudible) opened 270. If you look today last three months, we opened 60 stores, the rest of (inaudible) opened 75 stores. So it's very clear that we already have an acceleration of their parts. And I think these accelerations will further magnify as we enter the next year.

Operator

(Operator Instructions) (Julie Sherrio) from Bloomberg would like to make your question.

Q - Unidentified Participant

I had 2 of them. First, I wanted to ask if we have information on market share in Generics? And how it's trending? As you've been getting more aggressive on price, (environment) has been improving, it's still small part of the business more than -- so it's growth segments in 3Q. But I wondered if you could share the market share and so with us.

A - EugÃªnio De Zagottis

Thanks for the question. Yes. We have market shares data in Generics. Both market wide and we've seen other pharma, which will represent the largest gains. And even though we don't have the number, I can tell you that we resumed growth. So we lost share in Generics 2017 and beginning of 2018.

But as we started (reacting) the share is up, it's very up in units and it's somewhat up in revenue rating. So this points to the success of the strategy that we are undertaking.

Q - Unidentified Participant

Okay, that's great. And my other question was are you seeing this shift from branded prescriptions to OTC? What is that effect in terms of average price and margin?

A - EugÃªnio De Zagottis

Okay. So the shift comes from 40 bps of mix increase on the side of OTC and mix lost on the side of pharmaceuticals. I don't have the specifics in terms of margins. But what I believe is that the margin is big because generally, we had a much bigger margin on OTC. When a brand -- there's a shift like that starting (inaudible) in trend analysis. So I don't have the specifics with me. But I'm sure that this is a value-enhancing strategy for us.

And generally, it also helps (inaudible), because many of these (inaudible), I mean, they were stable and also somebody will have the brands (inaudible), starting to promote the products in the store. So this is a very positive dynamics for the whole industry.

Operator

(Operator Instructions) It appears to be no further questions. Now I will turn the conference back to the company for their final remarks.

A - MarcÃlio D'Amigo Pousada

Okay. So first of all, I'd like to thank you all for attending the conference. Talking about the quarter again just (inaudible). I mean, this was a challenging quarter with 80 bps margin pressure. Half of the pressure is related to the cost base, to the strafe of last year's quarter and not to a weakness in this quarter. But there's another half of that, that relates to the loss of operating leverage. So the margin lost 80 in economic (inaudible). I like also to stress again that even though we saw minus 3% from mature stores, there is no sequential deterioration. This again is related to comp base. We already see in October our numbers coming back to First Quarter and Second Quarter levels. That's not the direction I had. If you don't need the direction for as long as we are comparing a lower average price now and a higher average price in the past. But in the couple of quarters when we start looking at a comparable basis, I think the volume growth we are starting to see both (inaudible), which is (inaudible) even overall will translate in the organization. So we're trending where we expect to be. Talking about our strategy, I mean, the whole focus for us is on the long-term. And we are very fortunate to have a very stable controlling shareholder base that looks in the same way and that supports us. But not even that, we are fortunate to have a very long-term shareholder base within the free (inaudible).

Our CD shareholders have all been with us since the -- since our IPO. Some of them since IPO (inaudible) I think all of them since (the marker) in late 2009. So my point here is that margin is not always aligned with value creations. In fact, the value creating strategy demands a lower, shorter margin and that's what we're doing here. We won't be -- we have the higher -- the highest margin in the sector. We have no intention of becoming a hostage of our own margins and to become margin-myopic and do short-term things that are not the right things for the long-term. So we're investing now. And I'm sure when I look 2, 3, four years ahead, these investment margins will pay off very handsomely. As a result of these price investments again, the newer growth is taking place on a very solid basis. And this is the basis for the (inaudible) industry. And finally, thinking -- talking about market scenario and opportunity. We obviously see moderate market pressure in a market like this. But our competitors, they are bleeding, that's the right word. And if the companies look at the quarterly numbers, the margin pressure is huge. We have a competitive (inaudible) margin, we have another who has fallen from 8% to less than 3%. There are regional players who used to have double digit margin; today, they are very, very low margin. So these environments is (inaudible) on moderate way. But it's destroying competition. This is absolutely taking away their competitivity. This affects margin, affects cash generation, this is affecting leverage and even the quality of the operation. Because they have to cut the cost, they have to pay people (inaudible) to know how the cycle works. So they become extremely vulnerable. And this is a huge opportunity for us --

So in my view, the short-term challenges we have today is the foundation for an accelerated consolidation from now on and for a much better future in two years, three years or four years.

So finally, I'd like to thank you for attending the call. And especially I'll like to thank for our long-term shareholders for their ongoing support. We have a busy IR schedule coming forward. We'll be available to talk with you in the conferences and roadshows to host show when it comes to Brazil and even in the conference in Brazil. So with IR team remain available, it's a pleasure to be in touch. Thank you very much.

Operator

Closing and disconnection.