

Q2 2019 Earnings Call

Company Participants

- Orivaldo Padilha, Vice President of Finance
- Roberto Fulcherberguer, CEO

Other Participants

- Analyst
- Gabriel Disseli
- Gustavo Piras Oliveira
- Joseph Giordano
- Luiz Guanais
- Richard Cathcart
- Thiago Bortoluci
- Thiago Macruz
- Victor Saragiotto

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to the Conference Call of Via Varejo to talk about the Results of the Second Quarter of 2019. This event is being broadcast via webcast, and it can be accessed at www.viavarejo.com.br/ir, where you will also find the presentation. The slide selection will be managed by you.

There will be a replay facility for this on the website. The company's press release is also available at its IR website. This call is being recorded and all participants will be in a listen-only mode. (Operator Instructions) After that, there will be a question-and-session, when further instructions will be given. (Operator Instructions)

Before proceeding, we inform that forward-looking statements made during this conference call about Via Varejo's business perspectives, projections and operating and financial goals are based on the beliefs and assumptions of the company's management as well as on information currently available. Forward-looking statements are not guarantee of performance and they involve risks and 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 and other operating factors could also affect the future results of Via Varejo and

could cause results to differ materially from those expressed in such forward looking statements.

With us today, we have Mr.Roberto Fulcherberguer, CEO of the company and Mr.Orivaldo Padilha, CFO & IRO.

I now turn the floor to Mr.Roberto Fulcherberguer.

Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon, everyone. First, thank you very much. I would like to thank you all that are participating in our call. Thank you for being interested in our company. I also would like to say that I have here with me all the executive members of the company. I have here with me Sergio, Abel and Helisson.

So at the end, if we have specific questions, they might address those questions as well. We'll be talking about the figures, we'll answer questions regarding our figures but I would like to start in this first call to do it differently. I would like to talk a little bit more about our business, about what we are found here, our first impressions and what we already doing at Via Varejo. I think this is very much in line to what you would like to hear as well.

So first, I would like to say that I am a very, very happy for having taken over this company. I am fully motivated to lead the restructuring process for this company. I'm taking over a company that has in its DNA to serve well it's customers, it is true that in the past few years. Not necessarily that has been the case, but this is in our DNA, really this is in the company and we are going to resume that very quickly. And I also would like to say that I have a full approval and or a blank card from the Board.

For me to put together a team as I believe that I needed. And in fact, I was able to come up with a team that I really wanted today. We are an Executive Board that is united and very much focused and determined. We are not wasting energy on something differently from working on retail and changing, turning this company around and we are very much focused.

We will turn Via Varejo a into light and agile and transparent company. We have already started this transformation. We want to be the best experience for consumers whatever the platform consumers wants to relate to us. The consumers will decide how to relate to us at every moment and it's up to us to provide them the best experience possible. I have no questions that this is going to be a winner's game for those that have the best relationship with a customer. And this is already in our DNA.

We are going to create & improve the tools and all the ecosystem so that we can bridge this relationship. We have taken over a very strong company, and despite of everything that has happened in the past year. This is a sound company and this is the largest retail company in the country. We have a lot of work to do ahead of us. We have many challenges, and we have a lot of work in the different areas of the company, but I can

assure you that we have already started to do what needs to be done and that we are back to doing retailing.

I will show you now, what we have found and what we have done in the past 50 days, more or less the period of time that we have in here. On Page number 3, I will go through our history, you follow up Via Varejo for a while now but I think it's important to highlight from the topics in our history. We do have a timeline here so between 2009 and 2012, we have the merger between Casas Bahia and GPA.

We then started Via Varejo and it starts with some corporate issues, but under my point of view. There was a strategic mistake at the time. And that has to do with what we see today, which was the separation between on and off. This was not a consensus, but in fact that was -- what happened at the time, I think that has caused delays and problems that we have today to be faced.

From then on, starting in 2013, 2012 actually we started Via Varejo. And what we see specially starting in 2013 is that this company has a low level of attention to core. We tried to implement a model of other types of retail, into electronics retail. And from what we see today, this strategy proves not being very good. So there was a wish to centralize decisions on the controlling shareholder, some areas of Via Varejo were running within the controlling shareholders.

And that created a retail that is very bureaucratic and not as agile, as a retailing operation needs to be. Also we had a reduction in our headcount around 20,000 people and this is part of what we inherit. We have a large volume of liabilities and labor provisions that we will have to deal with and solve. Between 2013 and 2019, the company had five different CEOs. This is not something common, it proves things were not going right and for each new CEO, there was a new direction to the company.

It's difficult to look at a company that changes CEO every year. And not necessarily this was the best decision for the company's core and the best one for our consumers. So very short-term definitions, looking at the needs, the revenue needs of the company and so fourth. And so in this past three years, the company has been put to sale. They came into the conclusion that the separation of on and off was a mistake, & on comes back to the business which was Cnova, and Cnova was then reintegrated, fully reintegrated to the company on June 19, 2019.

And considering the figures of the company were not good. We ended 2018 at a loss and the company was not in a good trajectory. Michael Klein led a movement along with other funds and he invited me to participate in the process. I went out in a roadshow with the different places showing, where the company was and what we could do for the company. If the company were to be managed with a retailing direction of the funds believed in our case.

So on June 14th, there was an auction and the stock exchange, the controlling shareholder shares were pulverized. As of today, we have family Klein as a majority shareholder and other important funds. So this became a large corporation. The largest retailer, we are the

largest retailer with domestic control, the command is in Brazil and here right now. We go back to the doing retailing in Via Varejo.

On the next page. We have the breakdown of our leaders of our Executive Board. I am very happy about the team, I was able to bring together. We have a lot of experience in brick-and-mortar stores and in digital, but we have a senior team. They are ready, they're the right people to the right places and we are fully focused on delivering results. I will briefly tell you a little bit about each one's experience. I took over the company. I have been -- I have worked in GPA and Casas Bahia before the merger.

I also have worked at Via Varejo in the financial area. Since then when I decided to leave the company. Michael invited me to take over one of the seat he had on the Board and I have been in the Board since then. I have been in Arapua, GPA and all my career was in retail. And throughout this trajectory, I had the opportunity of being in all retail areas. And so I have a lot of baggage and I feel very confident to take over the challenges we have ahead.

In commercial and operations Vice Presidency we have Abel. Since we is started the process of potentially having this process, he is working with me and he helped me put together this team. He has a large experience in retail as well when Via Varejo started, I brought him over he was at the competition, he was going to take it was going to work with stores operation, he worked with me in Via Varejo and GPA.

So we have a 20-year relationship. And Abel deeply knows retail. He works brick-and-mortar and online stores, commercial areas and also on marketing. Padilha is taking over the Finance and Investor Relations Vice Presidency, so he's our CFO and our IR officer. He also has a sound experience, he has all the governance that the CFO needs to have. And he also he has deep knowledge about retail. So he knows deeply governance and retail. And he's going to help us unlock everything we need over time. We also have worked together, both here at Via Varejo as well as in Pao de Acucar and so we know each other for a long time.

Mr.Sergio Leme, he's our Administrative VP. He's going to work with logistics customer, service, Bartira and he has a larger experience in Patria, & under new businesses. He has been a VP at Whirlpool. He has worked in Mexico as well. He knows the other side of the table. He made me work a lot last year. So I want him by my side as Sergio will analyze service level and cost, all the time. And I am sure that he's going to deliver the excellent service level at low-cost.

Helisson is taking over the digital innovation and HR areas. And why HR under Helisson? Because, we do not have the digital area in the company's HR, it's not with them. This was Helisson's request is to take over HR. And at that moment, I knew that I had the right person in front of me. From then on, I had to convince him to take up our challenge. We explained to him exactly what was the project that we had in our hands, our opportunities and as soon as he understood it, he just embraced the cause and said that he would be with us.

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He has a huge digital baggage. He was the CEO of Mercado Livre and he was CEO of t MóvilPay. He is here with us for a week only or actually five days. He was the last one to come aboard. But he was already participating on our decisions and some may ask, but he is a pure digital person how can he behave in a retail company with many brick-and-mortar stores? Well, for five or six Saturdays, he has been in the brick-and-mortar stores and he's really passionate about them. We can see that in his eyes. And he is also very much on board to do everything that we need to do in this company. Once again, I can say that I am -- that I am very happy about the team I put together. This is exactly the team I wanted.

Now on Page 5, talking about everyone else that are with us, the different Boards and I will only talk about the companies that are new to the company, several of Directors are already were there, but executive Operations Director, Marcelo Lobao, we know him for a long time. Operations and E-commerce and Marketplace, we have Ricardo Saluti, also we know him for a long time. He was in Wal-Mart, Mexico in the same area.

Our Marketing and Communication multi channel, lca, she was with us a while ago. She was a trainee in the past she went out to the market, and now, she is back to our team. he's back to the company as Commercial Director for the White Line. Fernando Gasparini, also we know him for a long time. He took over supply chain logistics. He has a lot of experience there. HR Director, this is to open. We might have a news anytime. Now Roberto is taking over Commercial Planning, & is taking over Legal Compliance and Governmental relations. She has also a lot of experience, she knows a lot about retail, has been in different retail companies and she knows a lot of the programs that we have here, so the right person to help us.

is Finance Treasury Director. He is starting today in the company, he is brand-new in the company, a lot of experience as well. And Alimony is taking over Communication and Institutional Relations. He has been with us for three weeks. Also an excellent acquisition he's helping us a lot.

In summary, we have a team, again very seasoned both in the online and brick-and-mortar stores, so the right people in the right place and so focused in delivering results. And the regional directors, we have six of them, we switched four, two of them were kept. Of the four of them two have been promoted and two came back to the company. They were at the competition, and they wanted to come back and for this new game.

On page number six, talking about what we are and bringing out the figures. Today Via Varejo is a leader in electronics and appliances retail in Brazil as well as furniture with a revenue over BRL30 billion. We are among the top five in the global relation. With most in our international manufacturers. We are top of mind of the Brazilian market with Casas Bahia brand. And both brands together, we cater to all profiles of clients in the Brazilian society. We have a lot of credibility embedded in our brands and these brands and have been side by side, Brazilians and the good moment and the bad ones too.

Casas Bahia was with Brazilian, since the beginning, believing in consumers providing credit and credit operations are very relevant for us. So we have wonderful banners to

move forward. In the omni-channel platform, we have on and off integrated since July 1, 2019. We have several challenges and problems to be addressed. I'll talk more about them. And here we can look at the glass half full or half empty. Considering everything that we have at hand, when we address everything that we need to address. We will have a huge opportunity ahead of us with the retail that we have. We have over 1,050 brick-and-mortar stores fully integrated through our apps and our e-commerce.

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We have the Click & Collect at 100% of the stores. In addition to that, we have 7,000 pickup points such as post office and gas stations over 4,500 sellers and over 2 million SKUs in our marketplace. And a little bit further on, I will talk about our vision on marketplace. Our credit business, here we have over 5 million of active customers with payment booked. And they are recurrently active in our portfolio. We have over BRL3.5 billion active in our portfolio and over 10 billion pre-approved credit for over 70 million clients.

We have our own cards, co-branded cards with a BRL 6 billion portfolio and BRL11 billion pre-approved. We have banQi that is just starting and this is very promising for us. Several partnerships in terms of financial products logistically. We have the largest network. We have 26 distribution centers, over 1 million square meters of storage area. We are able to have two deliveries per second today and 58% of our orders are delivered within 72 hours.

And here we have something new, very quickly we are switching the figure to 24 hours, most of our deliveries are done in 24 hours and with a great cost efficiency. We are able to be and we will be the fastest deliverers and the cheapest deliverers in Brazil. We have several solutions already ongoing both for recurring customers' delivery and we have news ahead.

I would like to talk about our drivers. Through these first days and our perceptions on Slide number 9, would be physical stores. We found stores that were not flexible, the management, the a teams had some missions that really occupied them for several hours a day, to the back office was a little bit held up and there were some conflicts in the way the team was compensated. It was very much linked to extended warranty. And so what happened is that they didn't focus on the product sale only on the warranty or the extended warranty sales and it should be the other way around.

And also in terms of pricing, there was not, look flexibility, it was very hard for us to follow competitors. And most of the month, we couldn't do that. And at a certain point in time, we had to reduce prices very cheaply in order to pursue the level of our sales. So during the first Saturday that we were visiting stores, we already changed this metric that is to say the Manager and the sales people should no longer stay at the back office answering, huge questionnaires. And now they have to be there in the store and guaranteeing that we will continue to have the best service and retail.

We had this in the past and we are recovering this. So we already have 50% of the team being trained in the street, and in the next 60 days, we will have the additional 40% already in our already prepared and going through the field in order to train our team.

Over 400 people in this team with a major engagement in order to train, once again because we are going to recover the excellence that we had in the past in terms of customer service.

So we have rated on that at the stores, I really need to trust the managers, the store manager. Otherwise, I shouldn't have this person in the store. So the managers can follow already what the competitors do and they do have responsibility and we can see at the same moment whether accesses are being carried out or not. And you have to solve the problems but I would say that most of the things are already working. What happens after these changes? Well, we have been feeling this improvement in the level of revenue and also in our margins because otherwise you shouldn't just wait for things to happen.

And then all of a sudden have a very big change carried out very -- all of a sudden, omni-channel we are focused on having omni-channel in this business and we were able to integrate on July 1st. And then after that the client can relate to us or with us, the way they want so they could buy at the app and collect in the physical store and or return the product they get at physical store, the brick-and-mortar store and whatever is more convenient. And due to the transparent relationship that we have and we want to have a totally transparent company.

And I would like to make it clear that we have not yet reached a level of stability that we would like to have, we had problems in our brick-and-mortar stores in July because of this integration, intermittently we were a little bit out or off the air. We still have problems to be solved in our online operation, but they are being addressed and we are stable now in our physical stores. And the online problems are being addressed, we have a task force to guarantee the stability of this business and guarantee that next month or the last quarter.

We will have like Friday and Christmas and we will intend to be totally stable. And the consumer will be able to relate with them and the goods will arrive on time to all customers. Together with that and while we correct the details, what I'm going to talk about that a little bit later. Bartira, our furniture factory. We have a major opportunity to increase our furniture production and we have the capacity at the plant to do that. And this has everything to do with increasing our margin and our credit operations. So these two things go hand in hand, margin and credit operations.

And this allows us to increase our market share, increase our revenues and drive the business as a whole. So we already addressing this. We took furniture with 12% and we already have four additional parts today. And we believe that we can reach, frankly, 22% and we intend to stabilize further these figure in credit and financial services.

The idea is to drive credit operations and we are absolutely sure that we can have more credit and furniture, will help us in this endeavor. And talking about credit lines, we already work with many banks and as the treasury of this was in under GPA, our concern was to show our intention for this business. Banks do understand. They are supporting us, they have understood our position. So we have a very good position in this regard.

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And Padilha will be talking about that later. In banQi, we are on schedule 32 stores in the next weeks, we will have the prepaid card to the plastic and that is a very important component of for banQi, because not in all places in Brazil, can we have the reading of QR code yet and we are happy with what we found here. And very frankly, I wouldn't like to go into details here because there is a very big strategy behind all that and I know that our competitors are listening to us and I wouldn't like to go into details for this specific reason. In terms of people, we have improvements in our business. In all stores of Via Varejo, we started the program, the casa back home.

And the people that did not believe in the model that we had in the store. They are no longer with us, and now all the salespeople, know that we have established this program and that good sales people who won't come back and that left the company because they didn't agree with the model that was enforced. Then they can come back home, if they do agree with our model. So we are totally focused, with energy in order to turn this business around. We are increasing engagement diversity.

We will have a very well-trained team with very good proposals and values and commercial and marketing.

We are sitting down at the table with the main industries. We have already sat down with most of them in fact and together with and we want to have partnerships and strategic partnerships, and represent between 40% and 50% of many of these companies and sometimes even more than that. So it would be non-sense for us not to have a long-term view and a good strategy for the industry. We are going back to that very quickly and the industry is happy with our return. We're having holding excellent talks and industries know that, now we have, what is said it's done and they know me and they can give me a call at any point in time. If they think, well we have not complied with what we said. In terms of marketing, we are changing all our communication to multi-channel.

We are making many surveys, many proposals going on. And we will not be able to give you details but a lot of good things will be coming from marketing. And we have the program called leaders for the future. And in which we value our in-house team and we build a career for this team. So the store manager comes from the shop floor and the regional manager as well and the regional manager comes from operations. And in the future, maybe the new VPs and the new CEO, when I retire, will come from our ranks. So this is what we want and we are driving this, and we are making this very clear to our whole team all the value that we attribute to them in logistics.

We are towards the full integration of our business as of July 1st, when we integrated with Cnova, & we are doing the systems integration in order to become more efficient. We have a major capacity to act and to accelerate our deliveries, reducing costs. So there are many, many news to impart to you in the next few quarters and we will be accelerating Click & Collect for Black Friday and the technology and logistics team are already working on that and we will be able to deliver this improvement for our Black Friday. In terms of technology, here we have major challenge because we have the itegration of the on and off that has already been done.

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As I said, we saw a few instabilities then. We are in a quest for stability. The team is 100% focused on guaranteeing, a stable company, and guaranteeing that we will be able to run very smoothly with the two that we have with some fine-tuning being necessary. And so is carrying out a major diagnosis of our technology. And together there with that, we will be restructuring this business, so that we may have a top technology standard and the relationship with our client base on that.

Back office, we're concluding the administrative separation from GPA. I think we need an additional 20 to 30 days in order to finish this process. We still have some things related to payroll, that runs here and runs there, but top 30 days. We will need in order to have a full de-integration, total separation from GPA. And we are carrying out major transformations in our back office and adapting our back office in order to make it lighter, more agile and more adequate to our core and the back office should serve the stores and not the other way around. So we are working for the stores and we are working for our customers here.

And before I close, I would like to leave an additional message with you. We have just signed with Mackinsey. Well, the amount of consultancy that the company had in the last few years is incredible, but I would like to tell you why we have contracted Mackinsey. We have hired Mackinsey to do our, which is our transformation. Short-term transformation process in order to help with our digital transformation and also to design our strategy and the difference between our having this consultancy now and what was done in the past is that this is being focused by the top management of the company.

And they will be helping us in the necessary definitions and I am 100% involved in the new drivers that this business will bring, as in totally involved in this transformation, which is totally linked with our core, with our customers first and foremost and of course with our bottom-line. And the increase in our product profitability for our shareholders, for us. And Padilha will be talking about some figures now and when we wanted for -- when we start the Q&A. If we do not have an answer to give you right now, we will look for the answer and will come back to you, so we apologize in advance if we are not able to answer some questions during the Q&A. So I would like to give the floor now to Padilha, and I will come back during the Q&A

Orivaldo Padilha {BIO 21118157 <GO>}

Hello, everybody. Thank you very much for your attention. I would like to add to some information that Roberto mentioned. And one of the things that we did in the first 40, or 50 days was to build a direct relationship of the company, with our partners bank, some have been working with the company for over 40 years and in the last 6, 7 years, this was done directly by the controlling shareholder. And there was practically no direct interaction for the company. And when we took over, we drafted an agenda and we went to all the banks, talking to all the CEOs and all the VPs and the people who're in customer service and doing a lot of work in terms of building a relationship with a credit people, the credit assignment people of the company and the construction of the credit ceilings.

So it was mandatory for us. Because part of the contracts regarding debt and refinancing and the funding in the short and medium run had not been carried out yet. And as

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Roberto mentioned the banks are giving us their full support. And we are maintaining our caps, our ceilings with all the banks we are opening new relationships in such a way that we have already solved our need for the next year and we will now start discussing the structural part of the company's financing, so it was a very promising beginning and the banks believe.

They believe in the project that we are championing. And talking about the results of the second quarter. Well, you can turn now to page number 10. It's a little bit difficult for us to talk about results because we have not really lived the construction of this result, we are only giving an interpretation. So it's sometimes difficult to explain some detail, but you do have a snapshot on page 10. The company has a total gross revenue of BRL7 billion, 4.3% less year-on-year than last year there was a World Cup. So gross revenue from the stores growing by 1.9%, reaching BRL5.7 billion, which is good already, a certain stability also in same store sales with a very slight drop of 0.7%.

Then we start the negative point, our Invoiced GMV BRL1.6 billion, a 15% to drop. Both in 1P & 3P and then click & collect and quick withdrawal, there was a reduction in all these fronts. So 1P BRL1.2 billion. EBITDA grow 33%, a penetration of 80%, 3P growing almost by 50%, reaching BRL322 million, with 20%, 21% penetration. And Click & Collect 26.6%. It was 31.9% in the second quarter of last year. And here, there is a point related to product mix that also affected Click & Collect but as Roberto said, we are not at full capacity yet. Now we can get to full capacity, which means a huge cost reduction for us. Gross profit reaches BRL1.7 billion 11% lower than 2Q '18, 28% of gross margin a drop of 1.6 pps and I'd explain why shortly. Adjusted EBITDA has reached the BRL388 million and this quarter 38.7% below 2Q '18. The adjusted EBITDA margin of 6.4% is already under the new format IFRS 16. The company ends the quarter then with a net loss of loss of a BRL154 million, and net cash of BRL1.1 billion.

Now turning to Page 11. We have the drop of the revenue. So as I said, the consolidated gross revenue was a drop of 4.3%, brick-and-mortar stores BRL5.6 billion, 1.9% growth. And the online with a 23% drop, reaching BRL1.3 billion. This is highly impacted by the online business. And basically in the last month of the quarter it was impacted by the integration processes between brick-and-mortar stores and dot-com, Cnova. And this process was more intense in the last month of the quarter, and that's when we had the highest loss in online revenue.

Now on Page 12, we have more details. Invoiced GMV and this is online details. The invoiced GMV, dropped 15%, BRL1.5 billion. 1P GMV with 23% drop. That's where we had the integration process and the systems. And just stressing once again as Roberto said, this integration process of Cnova. The legal and fiscal and in the same tax ID number, and that the whole system, the inventory logistics all of that integration happened starting July 1st. So since the prior month was June, so all the impact of the process was really more intense in June. And therefore its reflected here in this quarter. Basically, this drop it happens in 1P and because of the whole integration process, and then integration between brick-and-mortar and online.

Now the financial performance. The gross profit of the company, & on Page 13, reaches BRL1.7 billion, a drop of 1.6 percentage points. SG&A slightly growing, BRL1.3 million,

BRL1.353 million vis-à-vis BRL1.321 million for last year, an increase of 2.4 percentage points. And this increase is basically reflects off the loss of around BRL400 million in the revenue when we compare both quarters. The gross profit basically refers to the loss in sales, and also because we had the end of Lei do Bem, Therefore, EBITDA goes down to BRL388 million, a drop of 3.4 percentage points, because of the reasons we already mentioned.

Now turning to Page 14. We have the indebtedness of the company from BRL1.9 million to 2.4 million. The financial debt goes up to BRL928 million, a short terms all of them. And I already mentioned, we are renewing this debt and our net cash, it has a drop of BRL1 million. This reduction in the net cash of the company basically is because of two reasons, loss in sales as I have said. And last year, the company had held a program to extend payment date, which was not renewed in this quarter. So we had an adjustment here of more or less a 50/50 of this impact in this reduction.

Okay. Roberto?

Roberto Fulcherberguer {BIO 17276995 <GO>}

So these were the financial results. We now open the Q&A session.

Questions And Answers

Operator

(Question And Answer)

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

Q - Luiz Guanais

Good afternoon, everyone. Actually I have two questions. The first one is, in the results release you talked about some systems instabilities that you have found in the second quarter. So, my question is, have you been able to identify all the systems' instabilities? And which will be the initiatives that we can think of to address them over 2019, and also in the beginning of 2020.

And my second question is about the inventory level. How do you think that this normalization will happen in the inventory level over the second half of the year? Thank you.

A - Roberto Fulcherberguer

 {BIO 17276995 <GO>}

Hello. This is Roberto. Thank you for your question. About the system instability. We had the impact because of the integration. In the first half of the year we had the instability that came from black Friday of last year, when we tried to implement some new modules. But now, what we really have is stability post-integration of Cnova.

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And I'm being very transparent. This has an impact in our sales for June. And we still have some impact on August. So we made a decision, of decelerate our website so that we would not be hurting our consumers. This instability also happened in the brick-and-mortar stores, the impact was lower. But, it did have some impact. About the solution, yes there are several fronts already operating, on top of that.

And we can tell you that we have been more stable in the brick-and-mortar stores and we are on our way to being more stable in the online channel as well. And we have a confidence and a great expectation. We believe, that will be fully stable in the last quarter of the year. About the level of inventory. Yes, we have an opportunity here. But we need to have two or three inventory turnovers to get to what we would like to have. And I'm sure that we do have a few opportunities, that we will be implementing in terms of digitization that are going to help us, having better inventory dynamics. We are also remodeling the way we replenish the stores. We are working on the frequency.

But there is a timing for everything to happen. And as they happen we will see a difference in the inventory level at which we operate, that's it.

Q - Analyst

Roberto. Thank you so much.

Operator

Mr.Thiago Emerson, Itau also has a question.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon, everyone. Thank you for taking my questions. First Roberto, you mentioned that now the company has more autonomy in the relationship with the industry. Can you share with us, which measures are being taken there? And how do you believe that you can be benefited? Maybe with better payment conditions, purchasing price offer, product offers and so on.

My second question is about the online channel. I know you had a few challenges in the e-commerce. And, can you go into the details, which are the main challenges that you have to overcome? And you also, if you can tell us a little bit more about that marketplace? You said that there will be news. Can you tell us anything about that?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you for your question. I'm sorry. What is your name again?

Q - Analyst

Emerson.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

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Oh, I'm sorry. Okay Emerson. Okay about the relationship with the industry. We cannot be as large as we are. And not have any long-term strategic relationship with the industry. If we have that we have major possibilities in terms of products assortment of assure ensuring delivery replenishment, they can assure your margin and several other fronts.

There is one thing that I should mention. We were doing something, which was we would - out of the industry look for a good position. And we had an in-house area that would be fighting with the industry and the small retailers. And more than that a lot of times this, wholesale of ours would be feeding our seller to bring down our price in our own marketplace. This is a strategic mistake. So we ended the wholesale area and we have signaled that to the industry. You're not here to compete with the industry they are our partners.

And, so we have different areas here. And I would not like to go into details. But in the face-to-face we can do that, eventually. Because there are a lot of topics that are very strategic to this relationship, and we would not like to disclose.

Now about the online challenges. I cannot tell you about any specific front. We have several fronts, several challenges. But what I can tell you is that, Allison after seeing all that is, giving us the confidence that we are on the right track. And that we will be very well at the last quarter of the year.

Now about the marketplace challenges, and how we see them. I have no doubts that the marketplace is very important to our business. Zero doubts about that. And this is something that we are going to encourage. But, what we will not do is the following. Well, today is more or less considered that the more sellers you have, the higher is your share. But, we did not believe that.

Once you start having sellers that are not aligned to the way you serve customers or sellers that are not really serving consumers in the short-term. The seller is not going to be hurt, but the owner of the marketplace brand is going to be hurt, which is ourselves. So, no question about it. And marketplace is a great opportunity for us to adjust several categories, that are in line to a business. And that we did not sell. And I have shared that this is a way of providing the best service possible to consumers in terms of assortment.

But we will want to qualify sellers that work with us. We are starting doing that. They want to make sure that they have a service level, that is compatible to the way we serve our consumers. And we are going to be very careful about cannibalization It doesn't make any sense to have any seller, that is a cell phone wholesalers in my business, will be very careful about cannibalization as well.

And about eventually you being in the competitors marketplace look today. We have a relative volume in the industry. So considering the volume that I purchased, it doesn't make any sense to competing to other retailers. If eventually, I have a distributor of an industry that is selling at a price that they should not be selling then they're burning their margin. We are going to talk to the industry and we are going to address that, at the origin.

So basically, that's what we foresee. Another thing that doesn't make any sense. Is that today you will -- there is an incentive to some sellers in some marketplaces. Honestly, this incentive should be a deduction over to zero out commissioning or to generate funds for that period, a rebate for instance for the seller.

And honestly, I did not believe that. I don't think this is sustainable. This is just an adrenaline injection, that's temporary. It's nice you close the quarter very nicely the marketplace is beautiful. But, it's a very difficult to sustain to maintain that. Without having to add money to it. So, we want to have an excellent marketplace, very pleasant in our business, but with quality.

Q - Analyst

Okay. Thank you very much. That's very clear.

Operator

Mr. Joseph Giordano from JP Morgan has a question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon, everyone. I would like to go back to brick-and-mortar stores and the short-term plan you mentioned, improving the purchasing experience. And I would like to understand from you. How is the renovation strategy for brick-and-mortar stores? I would say that maybe CapEx is spent up, in the past few years.

And second question, is that we still see some a Ps and we see in the North and Northeast. And I want to understand if you have an expansion plan in your mind. If -- and if you foresee assets, that could be acquired to leverage this expansion.

And going back to digital & systems. When we look at the system today. The system standing up and the architecture, that was developed for the past two years. Do you believe that this architecture is sustainable in the long-term, or maybe you need to develop a new system. And if that's the case, how long we would need to make that running?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you very much for your question. Okay. The first one is store CapEx. I'm sure that, we have work to be done in terms of renovations of our stores. We do not have that volume yet. We are looking at all of our stores in a strategic fashion to have a better understanding of how we wanted this model to be. And we are also checking, what would be the needed CapEx for this renovation. We have many stores, that only need water and paint. And other stores need more renovation. But we do believe that, with water and paint a little bit of soap, we will be able to address a lot in the middle-term. And then yes, in the longer term we will do a deeper renovation.

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About expansion, I think our priority right now, is to look at the stores that we have and make this year's planning as I said. And to recover sales in our stores and recover the share that was out on the table for a long time. So we want to have more productivity in the stores that we have today. But of course, do we have room to grow and expand. Of course, North and Northeast, we still have room to grow, we have room to take there. And also in other cities that, eventually we are not present yet or we do not have that strength. About the architecture in the system, we will try to make the best use of what we have. But, if we look strategically to the longer-term, we'll have to rebuild that business.

Q - Joseph Giordano {BIO 17751061 <GO>}

Perfect. Thank you.

Operator

Mr.Victor Saragiotto from Credit Suisse. Has a question.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Good morning, Roberto and Padilha, and everyone. I have two questions. The first one is about the timing, this improvement. You said it yourself, that the company's going back to retail. You have the system instability. When you have the stability of the system and the sales force in the stores. But, can you give us more information on how much of this improvement we should see of this improvement and when we will see that?

And also I would like to understand a little bit about the past vision, turn the store in the past, it was quicker and digital was more challenging, what about now?

And the second question about the opportunity that you see in furniture. It seems to be a relevant, right? Maybe out of 12% of the sales and you're talking about 22% of sales. If I'm not mistaken. I want to understand where this is coming from. If there is in fact a change the type of products, that you were offering you. If this was not as well considered in the past. And I would like to know more about that.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Well. Thank you for a question. Well, we want to do it as fast as possible. But we know that, we have a lot of challenges ahead. And I don't want to provide any guidance here. But I think we have a third quarter in which we have an improvement. But maybe, not in sales, but in our margin. Because we see improvement, we show signs of improvement. And that's our expectation for third-quarter.

I would like to have an improvement -- or fourth quarter, actually. I would like to say better margins and better sales. And starting next year we would like to follow improving in both fronts. This is a huge challenge, ahead of us. That these third and fourth quarters, especially the third one considering the instabilities. And not only in the systems. But also we're changing we're moving the whole company.

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So, there's a lot being done. But, we have that sense of urgency, whenever possible. About the brick-and-mortar stores and online stores turnover. Yes, in fact it is quicker to turn the brick-and-mortar stores in the digital channel. This is more difficult. But, we'll be doing it. We are going to focus -- we will be fully focused, because we need to unlock the digital, as fast as possible. We want to be in the market in the last quarter.

Now about furniture. I think furniture, this company made a decision at certain moment to stop selling module -- furniture. And now, we're selling plans here -- furniture. That's not our core to sell planned furniture. So, it went back in forth in the strategy, in the past seven years. So, it was back to selling module furniture. Today we have Bartira, the largest furniture factory in Latin America. So, how am I going to do that? I have to focus on furniture selling and I have to remodel the assortment. And I have to expand this assortment, as needed. And I have a factory capacity in Bartira to do that. In addition to Bartira, we also have other supply options. And we'll get this mix right. And we'll be able to boost sales.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Great Roberto. Good luck and success for all of you. Thank you.

Operator

Mr. Richard Cathcart from Bradesco. Richard M. Cathcart, Banco Bradesco BBI S.A.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon. First about your relationship with suppliers. Your strategy of negotiation is quite clear. But I would like to know if we should expect some impact, in terms of deadlines, et cetera. And the other one has to do with the Extra brand. How is this going to work vis-a-vis GPA?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you for the question. What we have today is the following -- today our inventory is supported by the industry. So, we have a deadline for payment, depending on the level of inventory, that we have. Two this is supported. And of course, there are no free lunches and there is a cost associated to that. So our wish is to make this inventory remakes more agile. However, you have to do this, only after you turn over the inventory once or twice or twice, So, it's 2x or 3x. So we will only be able to see this more clearly at the beginning of next year. So, this would be more clear at the beginning of next year. So regarding the extra brand, of course this is a strategic business and I believe that this brand is important for the GPA.

And at some point in time, we will be trying to sit down and then discuss the valuation of this brand, and the potential sales in the future. So, we are going to do the valuation and sit down and talk about it.

Q - Analyst

Thank you.

Operator

Mr.Gustavo Piras Oliveira from UBS.

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

Good afternoon, everybody. Thank you for the question. I would like to go back to the system's architecture question. For the end of this year or maybe up to December, let's say, I understand that your intention is to stabilize and turn over the inventories. But, how long would it take for you to recreate the system's architecture? Because, it seems it's clear that it's going to be in the long run. However, can you quantify that? Will you be running on the new system let's say in 2020 already?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you for the question Gustavo. There is a legacy for us to use. And what we expect to do is to give stability to it. And that this legacy will be with us too during the transformation. It's not going to be in one year time, that we will have a totally new system. The market usually work with something like three years to carry out the stock in a company such as ours. But we do have the target here to do this in less than two years, this is our target.

And the advantage of having the situation, such as it is. Because we are going to have new technologies. We will start already with new technology. We can do it faster because the technology has improved a lot. And our situation will be better than our competition. We want to transform this business in terms of technology at the world level. Regarding the third and the fourth quarter. And together, we did a discussion about the inventory. You talked about, turning it over for two, three times. So I don't understand why the margin should improve in the third quarter already.

Is it because you are very confident about your stores, already and you already work with the new system and better pricing situation for the sales people? Or if you need to turn over your inventories faster, you will have to carry out promotion in the short run? I understand you have some instability in the system. So I believe that you're not going to have such a good performance in the third quarter yet.

In relation to the margin. Well, if you want to do retail, right. It is easy and complicated at the same time. We see Via Varejo with all the stores being locked up, so to say you can get a good margin for 10 days or 15 days in 1 month and then overnight, then you start not selling and then all of a sudden you reduce your margin all of a sudden and very steeply for all categories.

So this imbalance makes you lose margin. And when you have a management in which the store has the degree of autonomy and starts this way already, then we can have the first 15 days, which are stronger already unlocked let's say, then you will not see the need to all of a sudden hinder your margin in the second part of the month.

So having this commercial strategy in place. It's a very big competitive difference that we have in our DNA. So at the end of the day the fact that I'm more competitive at the store will bring me a better margin. The fact that I work. And I gain margin every single day. Already shows us that we can increase our margin and of course this -- all this financial margin brings us a better margin overall.

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

And what about your credit business? This is a second question that the last few years. The previous management said, that they were interested in having a bigger penetration, in seeking this in order to increase profitability, and to increase sales. And so far this target has not been achieved. So, what are you going to do differently now, I'm not talking about the banQi only. Because I believe there are many other things adjacent to that.

But what about the competition in terms of the FinTechs and the access that consumers have to FinTechs, does it hinder you and to which extent?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

The credit strategy is very much linked to category the two things go hand in hand. So when I say that I'm going to drive furniture. And in the past, it was exactly the opposite and then this came back and then went off again. So, if we have consistency in that, if we do things right and with all the necessary synergies. The immediate effect is to drive furniture and driving as well our credit operations. So this is one of the two that we will be using.

Furniture certainly will be a credit driver. And there are many other two that we know how to use and how utilize in order to drive our credit operations.

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

Thank you.

Operator

Thiago Bortoluci from Goldman Sachs.

Q - Thiago Bortoluci {BIO 17950069 <GO>}

Good afternoon, everybody. The first question has to do with your guidance. Are you going to keep the guidance? And which of the areas you think is the most challenging. And regarding margin, how should we think about a balance in this positive trajectory offline and with your investments online?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Interrupt to apologize is because the sound is distorted here. Well, your question was not clear. The company says. So, your first question has to do with our guidance is this the gist of your question because we could not understand it. In the first half year we already see

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very clear the situation of the guidance for the year. So this means that we are revising the guidance. And as we have it already revised, we are going to publish it to the market.

And the second question, we apologize once again, but we cannot understand your question. That sound is very bad. We imagine that there will be a margin gain consolidated into our business. Because, if I carry out this long-term strategic negotiation with the industry, it does makes sense for us or our company as a whole, our company achieving margin gains. I cannot tell you what specific figure. But it does make all difference.

And one thing that is important and that should be mentioned, is that we have no doubt that the stability of our business in the very short run comes from the physical stores. And we are going to correct very quickly everything that must be corrected. And achieving our cruising altitude very soon.

So, generating better margins and stabilizing this. But on the other hand, we have no doubt whatsoever that the exponential boom of sales come from the online operation. And we have to build the company for that specific purpose. So if you have any doubt -- if you think well are we going to focus more like off and on, so we want to be excellent online. And we want to be excellent online than offline, and integrating these two channels. This is what makes this a winning situation.

Because online supplementing offline with the very excellently trained team at the stores. And so, when the person let's say bought on the online and goes to click and collects then the person comes and collect something at the store & then buy something else.

Operator

Ruben Couto from Santander, would like to ask questions.

Q - Gabriel Disseli

This is Gabrielle. My question is more focused on the sales people, the store people. You said that you already have a plan to bring back the sales people that had left the company for some reason. So, how do you see the level of payment that you have at your organization vis-a-vis competitors? And how is this project going?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you for the question Gabrielle. Well, salespeople mean productivity. If you look at the percentages of commission. They're not going to be very different among the different retailers, but what really matters is productivity, theoretically. I will be looking for a much higher productivity than my competitors per salesperson. We already have this situation. And they are going to make more money. So if they make more money, they are happy and they come with us or stay with us.

So, that they talk with each other and know how much are you making per month, and how about this and that. And then this attracts the people, the good people that have left

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the company. Which doesn't mean that we don't have excellent people in-house. We have excellent people in-house. And we have a team to train people even better. So our doors are open.

Operator

Very clear.

The Q&A session has come to an end. I would like to give the floor back to the company for their closing remarks.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

I would like to thank you very much for your interest in the company. And please continue to look at our figures, because we want to have a major interaction with all of you, and make it more and more clear everything that we are doing here. So, please contact our Investor Relations team.

And if you want to see some information differently from the way we are showing today. So all you have to do is well just make a suggestion. Because we want to adapt our information in order to make your lives easier or and your analysis of our business easier. So our obligation is to make our figures very-very clear. So that you may have a good interpretation and much more user-friendly.

We have a lot in our hand. And it's not going to be very fast. But, the big message here is that we can do it. We have the retail DNA, and we are going to recover that our first date is to go back to doing retail afterwards. We are going to do retail as nobody else. And then we prepare the company to go beyond retail. So, this is our goal. This is our target. Thank you very much. Have a good afternoon.

Operator

Via Varejo's conference call has come to an end. And the Investor Relations department will be available to you to answer any doubt that you might have. Thank you very much for participating. And have a good afternoon.

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