Q3 2012 Earnings Call

Company Participants

- Belmiro Gomes
- Claudia Elisa de Pinho Soares
- Corporate Participant
- Enéas César Pestana Neto
- German Quiroga, Chief Executive Officer of Nova Pontocom
- Jorge Fernando Herzog
- José Roberto Coimbra Tambasco, Executive Vice President-Retail Business
- Raphael Oscar Klein, Chief Executive Officer
- Roberto Fulcherberguer
- Vitor Fagá de Almeida, Investor Relations

Other Participants

- Analyst
- Andrea Faria Teixeira
- Juliana Rozembaum
- Tobias Stingelin

Presentation

Operator

Good morning and thank you for waiting. Welcome to Grupo Pão de Açúcar to discuss the results for the third quarter of 2012. This event is also being broadcast via webcast, which can be accessed at www.grupopaodeacucar.com.br/ir/gpa and www.globex.com.br/ir where the respective presentation can followed. The slide selection will be managed by you.

The replay of this event will be available right after the end of the session. We will like to inform you that the company's press releases are also available at their IR website. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. Right after that, we will initiate our Q&A session where further instructions will be provided. [Operator Instructions].

Before proceeding, I would like to mention that any forward-looking statement that will be made during this conference call about the projections to current business outlook, projections and financial outlook are just assumptions and uncertainties as well are also available that are currently available future events. Therefore they are no guarantee of our performance because they depend on circumstances that may or may not occur in the future. That's why they are just uncertainties and assumptions. Investors should also understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Grupo Pão de Açúcar and therefore could cause results to different materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. Vitor Fagá, Executive Director of Corporate Relations for the company.

Vitor Fagá de Almeida {BIO 16103413 <GO>}

Good morning, ladies and gentlemen and thank you very much for participating in Pão de Açúcar's conference call. We have here Enéas Pestana the CEO GPA. Also we have the four officers from our foreign business units, José Tambasco, -, Raphael O. Klein and also we here the CEO of --.and the CFO of and Directors of the company. Mr. -- you can now begin the presentation.

Corporate Participant

Good morning it is a pleasure to be here once again. Thank you very much for your attention. First of all, I'm not going to take your time speaking about the economic landscape, but it's important to reinstate that we are still very optimistic and also very confident with the Brazilian consumer market and the strength of the market be it by looking ahead at the fundamentals of the economy of the country, which is experiencing a good momentum. And also be for the more current measures adopted by the government to boost the consumer market. And we are already noticing important effects of these measures in the next coming year and at the end of this year as well.

Well therefore we continually evolve a very professional and indeed a weighted approach to our businesses seeking the growth of the company and good results. We are now concluding our strategic planning for the next three years and also the budget towards the next year. This process should be concluded by year end.

As I may say to you now that we will keep the focus and we will boost our growth more particularly through organic growth. So it is important to say that in 2013 for next year we have already acquired most of the land for the construction of our buildings. In terms of people we are in a very effective process to hire and select staff,. And also for training and educating people, we develop some internal training courses to train our people because, we do not want that to be a limiting factor to our expansion. So in general, we are still working to ensure return on capital to ensure whole indebtedness level and to reduce our financial expenses, reducing working capital by promoting more efficiencies in our inventory to our vendors as well and constant search, and effective search to reach efficiency gains.

Our main focus will be in the better return approach in terms of mini cargo, in ASAE and in the supermarket focusing on the South and Southeast regions, and authorities would like to refer to the eventual operations very concentrated in the Northeast in the next coming years.

Now looking at the third quarter, we have a presentation that I'm sure you are following. On page two, we begin to say that in consolidated figures we were able to have 8.7% growth, while our same-store sales was up by 7.1%, EBITDA in consolidated terms had a margin of 6.6, which was up 11% vis-à-vis the same period of last year, and net income experienced a significant growth reaching 1.7 margin with a final number of 210 million.

On page three, still talking about consolidated results, I would like to say that if you look at the column that does not include gains of real estate and projects, our growth was 8.5%. There was 14.7% build-in in terms of gross sales. EBITDA in that same period reached 5.9 and now is 6.2, so that was up by 15% reaching 2.2 million EBITDA during that period.

And net income again had a significant growth. Real-estate projects was almost 60% growth and EBITDA margin was 1.4%. Gross margin vis-à-vis the year before last year of the third quarter ahead 0.8% of net margin. So that was a growth of 0.6 percentage points of which we can say the half of that comes from operating efficiencies and the other half reductions in financial expenses.

The next page, page four, it's also marked well to notice that indebtedness level is still keeping with that of the last quarter in terms of net debt. And I would like to say that this net debt also includes CDCI or debt with installment payments.

And then in terms of EBITDA there was a reduction from 152 to 146 CapEx. The last nine months was 1 billion. And in fourth quarter, in the third quarter of 400 million. For the year EBITDA guidance is 1.8 billion. There are still many stores to be opened until the end of the year. And half of that 1.8 billion is invested in the expansion of the company in terms of financial expenses.

We have been talking a lot about this reduction and there certainly reflects reduction in the SELIC rate. Most importantly,we also did some important work when it comes to events or changes in interest payment, which caused significant reduction in the common payments with no interest-bearing.

And with that I'd show you the consolidated figures and then I'll give the floor to Victor to talk about the weighting down figures.

On slide number five, we have here some important highlights for the quarter. One of them, being the acceleration of our new stores particularly with non-food operations. In food 15 new stores are opened in Q3 Pao de Acucar stores, Extra Hiper, Extra Super and medium rate -. Well if you look at the indicators, there were 36,000 square meters that were added to the group sales area, which gives us a growth of 2.4% in the quarter when we talk about our sales area base, which is a significant growth and also more significantly if you look at the figures for the last quarter. So year-to-date, 3.2% of growth and in the fourth quarter of this year, we hope to peak the same opening peak in terms of our opening. So by the end of the year, we will be very close to 100% in terms of sales growth for GPA, food covering the different four mega stores. Particularity in the fourth quarter we will see that there will be a growth in the opening stores of -. The four new stores will be opened in the last quarter.

Now in non food or Viavarejo business there were nine new stores that were open mostly in the Northeast and Mid-West regions. Year-to-date than we have about 950 stores and approximately 1.4 million square meters in total sales area which totaled 2.9 million square meters if we consider the food and non-food segments put together.

Now I will give the floor to José Tambasco who will cover about food retail in Q3 so we are on slide six.

José Roberto Coimbra Tambasco

Good morning. I will just like to re instate some other figures that were mentioned by my two colleagues Especially related to organic growth on hypermarkets and supermarkets. I will refer to this sector, but as part of the food retail business and after my presentation, we will give you, we will refer to -- more specifically.

Now talking about hybrid and hyper and supermarket we highlight the opening of 15 new stores and three hypermarkets, which is part of that 15 figure which is above the guidance for this year of only four stores, but we already opened five to date. And we are growing into different geographies like -- and other in the City of São Paulo where the extra degree of Viavarejo are present such as Pão de Açúcar such as --.

Also we would like to highlight Minimercado's new stores in the first half of the year were mostly concentrated in the 60 stores that we had extra sales to Minimercado and the repositioning of the stores in terms of their proximity and then in the second half of the year we are focusing in the opening of these new stores. In this corner we already opened eight new stores. In October we opened eight new stores and by year end. As the guidance said we will have a total of 50 new stores.

And all the stores have the good sales performance. We have experienced about 20% growth, which is a big highlight. Also in terms of supermarkets, I would like to say that it has been a year since we converted the stores, and the performance, the sales performance was above average when compared to the retail number.

Now speaking of hypermarket in addition to organic growth, I would like to highlight two important things. There are two things that I would like to share with you. The first thing has to do with our most recent launch yesterday. There was extra delivery for the launch. We are ready with that with the launch of --, but now for real in Cambalo we launched an extra delivery for food. And with that extra is ahead of the curve getting more services by integrating the range in the physical world. Our expectation is that by next year Extra we will be able to reach a leadership position when it comes to food delivery in Brazil. The second highlight also speaking about supermarket has to do with changes or the repositioning of this category within Extra. We hire some designers like - and we are already noticing the effect of that according to some research institutes, telling us that the consumers are reacting and to this new approach.

And we are now more confident in terms of accelerating this approach in the supermarket industry. We are now rolling that out to other 28 supermarkets in Brazil. So we are remodeling this section, this category in the stores, so the stores are becoming more aligned with textile products, and more catapulted to accommodate textile products. And Extra is now being more also oriented towards working with some Extra carriers. This is for the non-food area in supermarket.

And this has brought about may be positive results also reinstating that the weeks are close to consolidating supermarkets, taking the leadership in this area also in Brazil. Now I'd like to give the call to Belmiro Gomes so he can talk about ASSAi.

Belmiro Gomes {BIO 18107864 <GO>}

Good morning and thank you. The third quarter was in keeping with the last quarters of the year. We had a very good performance in the ASSAi business. Also represented by 14.2% of growth in sales with a highlight in the same-store sale space. And also the main highlight was the improvement of the growth profits. There was -- it was up by almost 28% when compared to the same period the year before.

And we still have expenses -- are still of 0.2 percentage points below in the same period when you compare to the Q3 and there was also changes in payment means, because there was a greater volume coming to contribute to our financial results, contributing with 43%, which gives us net income of 15 million against 3 million of negative figures the year before changes in our ASSAi business model there was also a very good improvement in our results across nine months with 13.1 in terms of sales evolution and 14% in same-store sales.

And there was a reduction in the level of expense from 11.36 to 10.7, which was a very much lower level, very good one in terms of net results with 15 million of net income against a loss, a net loss that we experienced a year before. We are very excited with this past quarter. The market is very favorable to our business and business format, which has been demonstrated by our results in October.

We had an increase in the same-store base and along the year as we also introduced many changes in our business model, we are also working in this new format of our value stores. We want to have stores with greater sales capacity and a larger sales area. And it goes from 1,500 square meters to 5,000 higher on storage capacity.

Now we want to increase by April the storage capacity and this will have a decreased logistic cost and lower expenses cost available will be attained by the reduction of expenses. So we are working towards improving the format and also to allow us to benefit from these changes very soon. And I have said we already have new points of sales for 2013.

This new point of sale, we worked very hard to allow to double the number of geographies where we operate. By 2013 we will double the number of geographies from 7 to 14 states. This is the markets we'll be present.

Now going to slide number seven. We will principally talk about some main highlights of GPA Food in terms of growth filed from the 6.8% decrease in same-store sales, an actual increase of almost 2 percentage in the period. All stores grew by 9% following the fourth quarter where we see an increase of all store growth, the growth that we had before mainly due to increased growth that we talked before. Gross profit increase of 8%. Of gross margin, I would like to say that there was investments in competitiveness at the groups promoted this quarter. And as we already talked to you before, competitiveness is a key element in the business and we are closely monitoring that by format, by geography, and also category, and certainly to keep the same level of competitiveness is something crucial to ensure the sustainability of all of our results.

Also associated to some promotional campaigns that we have this quarter, one of them is the red alert in the Extra Network.

In terms of operating expenses, we were able to achieve efficiency gains, reducing operating expenses as a percentage of net sales by 3 percentage points and this was managed even in an environment full of pressures and costs related to staff.

We already talked about that referring to other quarters. This is a reality in the Brazilian market and even with that pressure, we were able to achieve good efficiency gains with this reduction in relative terms and this resulted in a very stable EBITDA in terms of margins of 7.3%, and a nominal increase of 8.4% credit compared to the same period of the year before.

Financial expenses Enéas briefly talked about the important reduction in financial expenses mainly associated seemed to be great, and the maintenance of meanless payments with a reduction in the percentage of sales with no interest bearing and this is a trend that is noted in both businesses, both in GPA food and GPA non-food. And here we also see a reduction of 1 percentage point in a financial expenses for GPA food when compared to the same period of next year, which includes a 30% deduction in nominal terms.

And this combination of increased EBITDA and reductions in financial expenses lead us to an increase of 20% in net profit when compared to the year before which gives us a margin of 3.1% and an increase of 0.2 percentage point vis-a-vis the same period as a year before.

Now I'll give the floor to Klein who will talk about retail breakdown and the business outlook.

Raphael Oscar Klein {BIO 17276978 <GO>}

Good morning. It's a pleasure to be here with you again. I'll try to be very brief and I'll talk about the third quarter and I'll talk about - and then we are going to talk about conference calls. In the third quarter of 2012, the numbers were good, very good. We're very optimistic because we expect even a better fourth quarter.

We experience an increase of 8.2 same-store sales. In our business, we experienced a slow down, which would lead us to a 13.4 growth in the last 12 month. And this was mainly influenced by many factors, improvement in the same speed as, reductions in IPI tax. And as we have resonated, it will land until December 31, 2012.

We were also able to reduce operating expenses and now we are beginning to harvest what we had planted one or two years ago when we made changes to our cost pattern. The other thing we did is that we revisited our personnel abilities and then we are harvesting the good results, which will be reflected in our end results.

In terms of the highlight, I would like to mention -. We also filed a secondary report, if you did. It's something that already existed, but it was not well articulated and in this new programs a strategy is needed. As the company needs we will develop managers to the used in our new stores, so we want to have people well trained and educated. These people started as sales persons. And with this training,we will be able to expand our culture in the way we operate in Via Varejo. Another important highlight that I'd like to share with you, is that I am leaving the presidency of Via Varejo on November 22nd. I would leave the executive position. I received this company with lots of losses and many challenges, but now I deliver the company with sustainable profits. I'm not get into details, but the results of mine management really reflects the results of the company. I would like to thank you all very much who joining me during this period and that's all I had for now. And we can have more later. Now I'll give the floor to Quiroga.

German Quiroga {BIO 17954249 <GO>}

Thank you Raphael. Good morning everyone. We have a very important development at Nova Pontoco. In our latest call, we had mentioned that we had those events, and a lot of presumptions. And as a result, I am excited to showcase our profitability and cash generation to the company. And we had the best quarter in the year in terms of net income. We invested in the quarter on a consolidated base. We have it covered and as - indicated Fernando and it happened over a strong basis in 2011. It was 40% last year which was down twice the flat to at that time. Better than that what really encourages me is that the company is ready for the fourth quarter. In a fourth quarter in the fall where you're growing more than the market. This slide shows things are things related to our focus and cost stability and sales generation this quarter just as we had in the and that we had in quarter of 2011. We believe we'll grow across the market and also issued a publictive manning for the cash generation for the company. This year we had four build-in space grow back our size, but it was acquired in 2009 like UTA. With a capital for three years, calculated about 219 million for 2008 and basically it's got the support of 2008. Another highlight of this offset that you're launching over the fourth quarter. They have been tough. The most important it is a -. It brings it in a neat manner. It already has several launches in Brazil, but it is a window that it can grow broadly. It is indicative of the change in the economy. Several quarters we are introduced with the cost. So this quarter we will provide the Internet user shopping mall and collateral cash reserve and that is comes to market. It sounds like it more labor intensive. Thank you for launch and -. Over the fourth quarter we announced to be involved in our interest in travel agencies and also travel window that are so many competitors in the market today, related to promotions very strongly, but in terms of ticket and we are pretty - compared to what we address now. At the time with our capacity addition had not been closer to the market, we try to underties our Internet user -. And with that we have a very brief -. And we also have that will be there overtime. To conquer the collateral, we have a strategy of business unit with B2B formations. Basically here we're reaching the demand of companies that are focused in some segments and also corporate players for companies to buy -. This is growing as a company with very good profitability. And one of the reasons that explains this growth is our high level of companies that are trying to come to us whenever they choose the right partners based on prices on prices having said this or the -..

For companies that can be reliable whenever they need different products, but some level of reliability of uncertainty. Lastly I'd also like to address our commitment to maintain our top commitment at this time our options. For the word again we decided focus on customer satisfaction. This is unique and beyond understanding. In the third quarter, we will have the highest level in our track record according to - and other agencies that monitor our performance.

We would like to thank our in-house team for the excellent performance. This is it and we'll be take your questions in the Q&A session. Thank you very much. Now I would like to give the floor to.--.If you can explain the main highlights.

Questions And Answers

Q - Analyst

Good morning everyone. This is Raphael -. This quarter we had a consolidated result between brick and mortars and quarters and also outline where we exceeded players of deals -. In other words really all those 8%, 7.5% -. And if you can off the deflation of the - we get to almost 13% growth which is very significant. While the growth restructuring, for the straight quarter of 2012 our gross margin was 26.9 a decrease of 2.7% vis-à-vis last year. And operating expenses are 21.2% including 3.1 percentage points year-to-date.

And you would also like to highlight an explanation that is in the release of your valuation of page three. We explained the effect based on geographical expenses that were the expense items due to cost reduction effects. We have at 16 million, without surging out gross profit in the third quarter of 2012 over 16 million that also helped expense or adjusted expenses. Before we quoted the 26.9, but 27.8, a a redemption of 1.8 vis-à-vis the gross margin in the third quarter of 2011 and other expenses rather than 21.2 would pro forma at around 32% improving a percentage point vis-à-vis the third quarter of 2011.

With that I'll give an explanation on profit and expenses. The company's EBITDA was 300 million or 16% plus year-to-date. EBITDA margin of 5.7, pro-forma 5.5 apart from third quarter of 2011 0.2 percentage points. And the good news here for the selection world also held by the select range and earnings to reduce 2.4 percentage point in our financial next year 2013 to our net cash generation of 680% or 720% growth for the third quarter and 1.3 percentage points of net margin. Now I would like to move the floor back. We'd like to give the floor. In fact we can move to the Q&A Session.

A - Corporate Participant

Okay. So that was a very straight forward summary of the third quarter of 2012. We already announced - comments of the completion of --management terms. I would like to highlight some from how could we see that. That's an excellent process. It was foreseen. We view that before that, but we are comfortable with that. Well that's just acts in our vision that we look forward to consolidate the rationalization cost for the company. This process has taken a good step according to the roles and also the corporate governance of evaluation.

We're absolutely confident though, we are neutral, respectful for the balance increase of revaluation as a company. So that's our position. So now let's start the Q&A session.

So in the fourth quarter, the fourth quarter presentation will have - next year. So Mr. - just arrived. It's his first call, his first meeting. He's here with us right now. But with Enéas César Pestana, and with the heads of each one of the businesses, we'll be a holding a meeting and also a call with all of you early next year in order to give you the guidance for next year. So again we are not going to make comments in this financial year. Once again, now I'd like to start the Q&A session. Thank you.

Operator

We'll now open the floor for question. We kindly ask you to make all your questions at once, and wait for the company's answer. [Operator Instructions]. Our first question comes from Tobias Stingelin from Santander. You may ask your question sir.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you, good morning everyone. Enéas I was wondering if you could give us some shade about the choice of the new CEO Raphael Oscar Klein. What are the parameters taken into account? Some names were in the Media. Can you make any comments on that more specifically? That's my first question.

Second question. I would like to have a better understanding of the lower gross margins for food 17 million margin variable. Does it has to do with fierce competition. Your competitors aim to be stronger. So is that recurring or something that we can envisage for the future? And I'd just like to have a better understanding of the 19 million as compensation, you have to pay as fee value. Is that related to the whole discretion in the media about like accounting consistency and what about the 26 million that you foresee at Globex reimbursed by the related party. What exactly is that and what can you consider for the future? Thank you.

A - Enéas César Pestana Neto

Tobias, here is Enéas speaking good morning and thank you for being with us. Thank you for your questions. In terms of the profit or the conclusion of Brasília firm and another professional taking over. But like I said this process that follows the corporate governance rules of the company. And as we've discussed at few of our human resource meeting. The profit is very respectful, so we can focus on properties. Obviously I don't have any names to give you right now. But we can as announced after the proper governance at the right time. Obviously we do need someone to continue the search for aimed at efficiency and everything expected from a big company like -. And that shown a qualified professional that is skilled enough and also with the right qualities to take the challenge. Obviously, we have to be careful governance wise so this person is skilled enough and qualified to take challenge, that's what I can tell for the moment. Does it - in a timely manner, we'll be announcing as necessary about that case. Thank you.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Can you just tell me about the Human Resource Committee. Who is heading that? How many people are involved? can you give us a scope and sovereign when it comes to the choice?

A - Enéas César Pestana Neto

These committees don't have the power of decision.. They're an arm of the Board of Director, so they go deep into this matter and human resources. And to clarify the issue, we also have a financial committee dedicated to technical issues related to results and finance.

And we also have an expansion committee and business underway and this is more devoted to sales expansion and breakdowns. It does not have the power of decision. However, in third quarter cash we feel deeper into conditions, the technicality in order to make recommendations to the Board and the Board has the right of decision the power of decision. So as what we will view it about - regardless of the case. So basically you can say it does not have the power on decisions, but that's a key component on the process. And will be respected in this process. Is that okay Tobias?.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Okay. Thank you.

A - Corporate Participant

Okay. I'll give the floor to Tambasco so as he can answer your second question. Tambasco?

A - José Roberto Coimbra Tambasco

Tobias, good morning. A couple of words about the margin for retail and food. Just highlighting what Vitor said before. This growth is healthy growth in this type of business. Technically it happens through the search of higher competitiveness in every sense of the world and price is one of it's components that is maintained in our banners.

Right now obviously, like we said we have three new supermarkets opening and they do effect the margin in this stronger opening herein. But they are very positive when it comes to the supply of all of these stores and also we foreseen our price positioning. In addition like Vitor said, we have intensified our promotions, Vitor mentioned the rest other promotion. This promotion is very similar to Black Friday.

In every quarter, they'vee been carrying out these strong promotions. So personnel flow is very strong in our stores. And even in September when we close the quarter, we have in place to have two of these promotions, very strong promotions. And it will have an impact on this percentage margin.

On the other hand when it comes to cash margin gains are very significant to all events. Therefore, it shows a different role compared to what we had in the past.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Okay. Just a type of better understanding, I think we had a first drop in the gross margin since 2010. It seems to kind of go up. Should we expect this margin to be more stable or flat? Or do we expect to see more changes, just as we've seen right now.?

A - Corporate Participant

We are prepared in terms of promotions end of the year so that's a strange at the end of the year. So we'll think for that undoubtedly. On the other hand, I can say price reinforcement of some categories in our stores to grow we also have to add more sales as well we have higher margins, textile for instance. The textile areas they had lower margins significantly. And as move forward, we're hoping that we have very strong trends. By year end our expectation is to have additional market gains in these categories can offset this higher price aggressiveness. Thank you.

{VVAR3:} Entering your last question. I'd just like to comment that these launches by year-end FICD and then Globex can be highlighted both and not usually any news recently announced what we think do and by just a brief comment just highlighting our official announcement we're telling you we are not going to be involved at any kind of speculation or any media news that is to the ground. I would just like to highlight these efforts by you is due underway. And this is being performed by four companies when it comes to auditing. His work is still underway. It hasn't been completed yet. And there is no kind of error or lack of competency. So obviously any payment or any operation involved in CDSI right now or this quarter obviously. There is no relation whatsoever what is due underway and is expected to be concluded soon.

These terms are related to an association agreement between the CDSI and the client family, both - and corporate value. This density with conditions regularly used now are used in partnering in profit. Each partner is responsible for some business that's generated for the partnership as a five fold increase after the partnership and that's what happened.

I think it generated both effects and it also prices by year which are prior to the partnership, but you realize only after that tax rate. And what happens right now is that company has to beat the revenues expenses. And that's why we have a positive posting of 26 million Via Varejo coming from the partners and also negative posting for taking or due to the partner elasticity that offset the revenues.

So through the year we have two definitive posting that are foreseeing in the agreement, the partnering agreement in order to protect the companies and in contingencies for liabilities that were priced for the partners. They were reported by the partners. Thank you very much. Have a good day.

Operator

Our next question will come from from -- Raymond James. You may proceed.

Q - Analyst

Good morning, everyone. Thank you for taking my question. I would just like to go keep arranging the profit or some of the topics mentioned by - and that relates to the new cost stabilities or business fronts not able to find?

Most specifically, I wonder if you can comment on the entry of your travel business what are your tourism and travel business. What are you goals in that segment? Because this segment is very competitive. You have to think about matching with market players. So what about the market players model and that how this will improve the cost stability not able to call, and that's the first part of my question?

A - Enéas César Pestana Neto

Good morning -. Thank you for your question. First answering about our travel business. We have been talking about segments for quite a lot of time now federal alternatives of entry of a potential M&A and other potential alternatives. Valued back from half, the target sales to the business, and we have to do something in order to beat the market. So we are focusing on this business particularly -. We are willing to sell the tickets. It will be across the spectrum. After that we decided a somewhat stable business. But overtime with collaboration with our operator after we already set operators that is very keen to enter this market. So we will be trying to enforce it. The agreement has already been entered in. And we are testing on it now.

We move to the travel segment, trying to explain so we can have better margins particularly in our new segment, I cannot disclose the margins right now. But I can tell you that this is higher compared to the margins we have in our main category.

In the marketplace, like I said this model already exists in the U.S. the marketplace model. And this model ensures a lot of cash generation and profitability. So how does that work? Basically we take agreement with partners, with good level of reputation and good level of cash flow. And take it upon -- if someone visits our website, right now we are not fixing our brands as it is here. We want to improve that margin at our main brand. So we are going to use one brand product line. We have a brand that is ideal to start with as a focus here. And we're making use of this specific brand that we use in previous businesses to support our e-commerce and market trends. So we're ready to sign brand for this intermediary market. So we'll be touching this overtime and in the fourth quarter you'll find our main products in our website specified by area with other dermatologists will be what we already have in our product lines, sit next to our products.

We also had products from different business markets. Right now, we are selecting different partner by category for it. We signed agreements with leaders of different segments by store, mainly food delivery, we need quarters to highlight this strong this quite significant where it is delivery segment. But it is very helpful to you to ... for Brazil. So this is -- in the Brazil where we had our financial studies show that we will generate good solid bottom line and cash generation. So this was corporate module.

We have been investing our time to build this platform. So our retail partners can understand what's happening, portfolio of orders and also manage the whole operation in order to ensure good level of service. But it has hit the bottom but we have, believe it will be even better to improve our bottom line of the company. Thank you.

A - Corporate Participant

Coming back to the second question about ASSAI. ASSAI improved it's contribution in the company's results.

Q - Analyst

So from 7 to 14 points which pass a good state are you addressing more specifically, can you elaborate on that? And will that happen over 2013, final dating for us can you give more details please?

A - Corporate Participant

Thank you very much for your question. Obviously I cannot disclose all the details because, part of that will happen in 2013 this month we are inaugurating the first store in the City of Barra da Tijuca, the property is 12,000 square meters of the area and the capacity is quite interesting. The store had an excellent performance in the first month after its opening.

We wanted to double the size by 2013, but we have today to-date four construction sites. Three will be inaugurated next month and in the early next year. But I do not to disclose anything at this point. But I must say that we will double the number of sites for ASSAI at the end of next year. But it's more in the Northeast

Q - Analyst

In what region could you tell me a little bit about that?

A - Corporate Participant

Well mostly focused in the Northeast but also we have stores in the North.

Q - Analyst

What will be your competitors in this market?

A - Corporate Participant

Our main competitor is Atacadão. They are present as well in the same state where we are, there is Mectron who also has domestic coverage and there are some others following. In the non-food segment its also occupying the space of other companies, the raise of logistic cost that we have experienced in Brazil is becoming, is straightening this new business model and now even smaller competitors can play an important role, because they don't need a lot of working capital, but they can turn their products much faster.

Operator

Our next question comes from Mr. Fabio Perucan Lukesir Pacwel. You may proceed.

Q - Analyst

Good afternoon. My question is about expenses, particularly at Via Varejo. I would like to hear from you, what kind of opportunity you see in the pipeline in terms of rationalizing expenses and even market improvements in the next coming years for Via Varejo?

A - Raphael Oscar Klein {BIO 17276978 <GO>}

Good morning Fabio this is Raphael. I will start answering your questions, then I will give the floor to my colleague from our expense committee. We are experiencing good results but I would like to remind you that we still have few opportunities for 2012-2013 and we would like to reduce things further but it's important to say that we do see good opportunities for next year. As soon as -- approves our profits. Now I will give the floor to Jorge who will be able to give you more information about expenses.

A - Jorge Fernando Herzog {BIO 16205117 <GO>}

Let me just say a few words. Financial expenses our profits to reduce expenses as far as Ponto Frio -- I am sorry. I think, I should start again because the microphone was on mute.

Our expense reduction cost is started with the integration process where we saw many opportunities and updating synergies between the two companies and then we had discovered this as the process that has been consolidating throughout the year then there was this year that we were able to capture the benefits of these process but since the middle of the year we realized that we could move forward in that proposal charges expenses and so as Raphael mentioned before we introduced an expense committee or audit committee as people know because now from what I think is that committee is made out of people that look for reduction opportunities but also they seek for better control.

And the result of that process is quite interesting they're reflected in our Q3 results. And we know that as we get approval from -- there will certainly be other opportunities that can be tackled as well. We are perfectly referring to logistics to operations because we know there are still some additional opportunities to be captured. And up to -- releases that were developing and we will certainly be able to do more about that, still talking about car dealers just like to take this opportunity and say that we have very good expectation.

We hope that the final decision will come before the end of the year. And we feel that -- is very much focus towards clothing and this impacts until the end of the year. They have asked us for further clarification and that has been already sent to them, that's why we believe that the final opinion will come before the end of the year.

Q - Analyst

But that's still talking about your last concept. What are you doing internally? I mean what in your view, what could be your possible restriction impulse by COGI? We know that there shouldn't be anything very wayward or serious, but I would just like to have an idea of what is in the pipeline?

A - Jorge Fernando Herzog {BIO 16205117 <GO>}

I mean we hope that their opinion will be released with no restriction. There were some limitations at first but none of these limitations could impact the business and so as a process we had few moments where we asked them to be more flexible and we were promptly heard, and so our expectation is that the final opinion will come with no restrictions.

Q - Analyst

Thank you, thank you very much.

Operator

[Operator Instructions]. Our next question comes from Andrea Faria from JPMorgan. Please you may proceed.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Good afternoon. My name is Andrea from JP Morgan. I'd like to ask you about Via Varejo. But I think, the number one question that has to be with installment payments with no interest bearing or no sales through restrict to a - a slip booklet and then what about Frio, how is that performing and also when you talked about projects for new businesses, how can we consolidate that with future CapEx and also any expectations about when the company will be next to Nova Pontocom and totally -- positive?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hi Andrea, this is Roberto from Via Varejo, thank you for your question. Well you also refer to these payment, in fact we are still experiencing a very strong evolution in our pricing model. To stop on payments with our interest of credit sales are stable, credit card sales as Enéas said at the beginning is very, very stable. We are increasing our sales and everything is being articulated in such a way that there is no impact in our final sales results with Via Varejo.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Well thank you for your answer. Can you tell me what is the level today and what was it last year in terms of no interest payment?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Well credit card payment or sales accounted for 60% non-interest sales and today we have about 40%. We are still promoting a further reduction and we've been successful. So we should expect better numbers in the fourth quarter.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Thank you. What about the installment payment booklet during the sum on payment approach there is increase in competitiveness and this kind of interest payment. Will you see that or any changes because of that process or I know that the rates you have a very competitive but is it the right moment to increase it?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

I know that if you look at year-on-year there has been an increase installment payment is something that is performing in a very stable way. But in view of everything that is happening in the market we were able to maintain the stability of this means of payment.

We are not seeing any major threat for this means of payment, installment payment by means of that monthly. So it is still stable and with the same share.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

What about other kinds of means of payment or delinquencies?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Delinquency is still stable. I'll give the floor to Claudia to talk about that.

A - Claudia Elisa de Pinho Soares {BIO 16377398 <GO>}

Andrea thank you. In terms of the frequency, I can say that frequency levels are very stable and under control. No surprises in this area.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Could you please tell me what level of frequency you have for installment payment?

A - Claudia Elisa de Pinho Soares {BIO 16377398 <GO>}

Usually we don't talk much about it. But when you look at the balance sheet and our CDCI portfolio we usually prefer to 6.5% to 7% and this is what we've been keeping even though delinquency, historically speaking is lower reaching the utmost level of 6.5%.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

And finally I don't know whether Quiroga can tell me a little bit about e-commerce, CapEx and the cash flow?

A - German Quiroga {BIO 17954249 <GO>}

Yes, Andrea. Thank you for the question. This year our CapEx is below 1% when compared to net sales. Usually historic levels were two. In the fourth quarter with the launch of new businesses we will be below two. Next year it will be around, I mean between 1.5% to 2%% of net sales and the cash flow will be higher as of next year because we are making many launches this year, at the next year we will benefit from all of these launches. So thank you for your question again.

Operator

Our next question is from Hugo Obriguez from Goldman Sachs. You may proceed.

Q - Analyst

To come back on these plans in place for Nova Pontocom, what are the CapEx expenses that you anticipate, may be not only for 2013, but also from now on so that you can indeed put together a technological platform. And what are the investments necessary for the logistic side?

A - Corporate Participant

Thank you for the question. What I'll give you now in absolute values but our sales will be total about 4 billion but it will be 1% to 2% in terms of CapEx net sales for this year and next year at the most 2%. For next year, we anticipate growth. But in terms of investments we are already contemplating investments in logistics and technology and also new businesses.

Historically in percentage net terms or also absolute value investments were low and we were able to make the business grow at the speed that we mentioned reaching 4 billion this year. This is very different when you compare to the rest of the margin and percentage terms we're investing in people in a very consistent way and that has proven to be various sturdy. Thank you.

Operator

Our next question will come from Juliana Rozembaum from Itaú BBA. Juliana, you may proceed.

Q - Juliana Rozembaum

Good afternoon. I would like to learn more about ASSAI's provisioning. In a certain way ASSAI is going back to its origin, it is focusing, I mean after flirting with and consumer -- they understand that you can have better margins with the processor. And what was the capital invested in CapEx and how do see the return on invested capital with this new focus on the processor and weather this is the type of profitability level that we could anticipate number one and what is the return on investment was? Thank you.

A - Corporate Participant

ASSAI grew as we funded in greater São Paulo with the features of its geography. With the changes that we implemented were more towards expanding our target audience to embrace people who utilize merchandise and retailers like mini markets and other they will not use the product for processing. They will retail. It does not reflect the position of a few years ago what the situation is today. We changed the positioning because their business has some characteristics that will only apply to Sao Paulo but transfer into other Brazilian states. It did not have the same appeal so the change was to make this business model much more sort of and much more adequate.

We had to do a very heavy assortment review. We have two new -- 2000 new people involved, we changed some sections and close some others to decrease the presence of consumers in terms of buying our volume tickets and companies be it card -- or resellers and as a secondary audience we have consumers especially those who buy a lot of volumes or buy for some particular celebration like birthdays et cetera.

So we changed the positioning of ASSAI, changes were made to the business model and that was applied to certain stores but we start to execute now. The second phase of this work in a new store format we have smaller sales area and lower inventory position then now in terms of the equipment and how these stores operated all of that has changed. So we're just fixed and inventory levels changed itself. We used the new business model, our expectation is that with this new format we will be able to see very positive impact in the results of ASSAI. We have with respect to CapEx cost we are able now to introduce better storage areas. And at the same time promoting more expense levels. We are working with operating expenses of around 10% to 10.5% part of that is also impacted by investments in people to put all of that in place, and this new format considering the low single digits.

Q - Analyst

Thank you very much. But before I conclude I have two other quick questions. There - and Claudia, I'm sorry I forgot the word, after you refurbished the stores to the mini market concept and now also including the organic expansion with new stores, what do you think could give you a much better margin gains maybe you can tell me, what kind for margins we should expect?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Good morning. Here is Roberto. First of all, we are very confident about our new positioning with Minimercado. Now in terms of the margins of the business, we are still operating only in Sao Paulo so a very limited geography but we also wants to grow to other geographies. And to do that, and we have to look at other implication such as logistic cost et cetera. So currently we are restructuring the future growth.

So it will be a little premature to talk about the final margin at this point. However, this is a business of lower sales and the margins are also lower when compared to the retail average. But the potential for growth is very significant and at a low investment level and this will allow us to even though we will have margins below the retail average the return on invested capital will be very significant.

Q - Analyst

And my last question just out of curiosity. The launching of delivery don't you think that it can stabilize the Bricks&Mortar store or the delivery consumer will and thereby migrating part of the shopping will be in Extra and the other part would be at Pão de Açúcar?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

That is something that may happen, but I have been also telling you that we have consumers that operate in multi channels. There they can meet their needs by many different channels they interact with ASSAI and but wanted to just guarantee that the client will be with us no matter what channel we use. Of course we have to look at the cannibalization amongst the different businesses, what matters increasing the share. Pão de Açúcar has a very, very specific audience and Extra is different because, Extra expands the base very much not only in São Paulo we also see opportunities to play that throughout the country with very high brand strength, not only focused in a cosmopolitan audience coming from Rio and São Paulo but we think we can expand that a lot.

But even there is some cannibalization the expectation is that we will be able to add new sales with the delivery business, not only that but we will be able to strengthen the Extra position in the ROI world. And outside the large metropolitan areas it will also have distribution for the online customers.

Well on the flip side in both São Paulo and Rio that we also foresee the expansion into other locations where Extra is present. In terms of cannibalization well my view is a bit different. And what is interesting is that to grow our digital customers they are already accessing extra.com. So there we have a lot of people accessing the market online especially in São Paulo.

And another interesting piece of information is that when we look at the three brands and the overlapping of the brands, and talking about cannibalization this overlapping between the three brands is only 2%. So we have more products that we are working towards making greater distinction and differentiate the stores. And once as products are very similar it is natural that you see an overlapping. But we see people buy other Extra products now online. Thank you.

A - Corporate Participant

The conference call from Grupo Pão de Açúcar is now concluded. And the officers from the Group Investor Relations will be available to take any further question that you may have after the completion of this session. Thank you all very much.